



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

March 13, 2008

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Bank of Commerce  
Charter Number: 14109

1127 Tower Avenue

Superior, Wisconsin 54880

Office of the Comptroller of the Currency

Minneapolis North Field Office  
222 South Ninth Street, Suite 800  
Minneapolis, Minnesota 55402-3393

**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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The primary factors supporting this institution's rating include:

- NBC's loan-to-deposit (LTD) level is reasonable at 91%.
- NBC's lending in its assessment area (AA) is strong, with a substantial majority of loan originations within the AA.
- NBC's lending to businesses of different revenue levels is reasonable and in line with the reported demographics.
- NBC's geographic distribution of business loans in the AA is strong and has exceeded the demographics in lending to designated low- and moderate-income areas.
- NBC's performance under the community development test is satisfactory including adequate levels of community development lending, qualified investments and services.

## **Scope of Examination**

This full scope CRA activity assessed NBC's performance since its last CRA examination, December 2, 2002, through March 31, 2008. The evaluation of lending products included a review of a sample of thirty business loans originated throughout 2006, 2007 and the first quarter of 2008. As this sample validated the reliability of related bank reports, this evaluation also included comprehensive origination and purchase information for all business loans throughout this time period. For evaluation purposes, business loans are the only primary product as they comprised 70% of the aggregate loan originations and purchases during this time period.

The community development test included a review of community development loans, qualified investments, and community development services. Such loans, investments and services that originated since December 2, 2002 through March 31, 2008 were assessed.

## **Description of Institution**

National Bank of Commerce (NBC) is a \$442 million national bank operating wholly within the Duluth, MN-WI multi-state metropolitan statistical area. NBC is owned by NATCOM Bancshares, Inc, a one-bank holding company headquartered in Superior,

Wisconsin. NBC operates out of six offices, with seven on- and two off-premise automated teller machines (ATMs). Five of these ATMs accept deposits. No branches have been closed since the last CRA examination; however, two branches have opened. The bank's second Superior, Wisconsin office opened March 31, 2005 and the Hermantown, Minnesota branch opened December 1, 2004. Two of NBC's offices are located in low-income census tracts, one in a moderate-income tract, 2 in middle income tracts, and one in an upper-income tract.

NBC is a full-service national bank offering a wide range of business, home, and consumer credit products and services. Business lending remains the focus of this bank's business strategy and activities. As of March 31, 2008, NBC reported total loans of \$307 million, representing 68% of total assets. NBC also reported 80% of its loan outstandings comprised business purposes, 17% for various residential real estate purposes, and 3% to individuals.

There are no legal, financial, or other factors impeding NBC's ability to help meet the credit needs of its assessment area. At its last CRA examination, NBC received a "satisfactory" rating from the Office of the Comptroller of the Currency under the Small Bank Performance Standards.

## **Description of Assessment Area**

NBC's assessment area (AA) entails 54 neighboring census tracts of the Duluth, Minnesota-Wisconsin multi-state metropolitan statistical area. The AA includes the southern most portions of St. Louis County, Minnesota including the cities of Duluth, Hermantown, Proctor, and other townships, plus all of Douglas County, Wisconsin. Major cities in Douglas County include Superior, Solon Springs, Poplar and Lake Nebagamon. The delineation of this AA does not reflect any illegal discrimination, or arbitrarily exclude any low- or moderate-income areas.

U.S. census data of 2000 reports a total population for the AA of just over 153 thousand persons. Census tracts in the AA are designated as 11% low-income, 28% moderate-income, 41% middle-income, and 20% upper-income geographies. Twelve percent of households in the AA reported income below the poverty level, as did 7% of families. Civilians not in the workforce represented just under 28% of the population; and, just under 15% of the population is age 65 or over. The Bureau of Labor Statistics reports this AA's seasonally unadjusted unemployment rate of 6.2%, above the Minnesota state level of 4.6% and the national level of 5.5%. Weighted average of median housing price in the AA was just under \$80 thousand and the weighted average of Housing and Urban Development updated median family income for the Duluth, MN-WI MSA in 2007 was \$55,500.

Business demographic data of 2007 reports a total of 11,516 businesses in the AA. Of this total, 58% reported revenues of less than \$1 million dollars. Nineteen percent of these businesses operated out of low-income census tracts, 17% out of moderate-income census tracts, 43% out of middle-income census tracts, and 21% out

of upper-income census tracts.

The economy of the AA is good and competition for financial services is strong. Major employers include healthcare facilities, the utilities industry, public and private schools, hotel and restaurant industries, Great Lakes shipping, logging and paper industries, and local governments. Competition entails numerous national and state banks, savings banks, credit unions, mortgage companies and finance companies. We selected seven local national, state and commercial savings banks for comparative analyses to NBC. These banks range in total assets from \$70 million to NBC's size of \$442 million, with an average total asset figure of \$211 million and a midpoint of \$191 million.

Examiners reviewed all three community contacts made within the Duluth, MN-WI MSA and performed by the OCC since December 2002. In addition, examiners made one additional contact during this examination. Contacts included entities involved in small business development/support and residential real estate sales. These contacts noted small business lending, affordable housing loans, and modest amounts of qualified community development investments as the primary credit needs of the area. And all of the contacts indicated that the local financial institutions are meeting the credits needs of the area.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

The bank's performance under the lending test is satisfactory.

#### **Loan-to-Deposit Ratio**

NBC's loan-to-deposit (LTD) level is reasonable. NBC's average quarterly LTD ratio since the last CRA examination is 91%. This ratio ranked fourth in a peer group consisting of seven local national banks, state banks and commercial savings banks ranging in total assets from \$70 million to \$442 million. This group's average LTD is 88% for the peer group and the midpoint is 91%. Average asset size for the peer group is \$211 million and the midpoint is \$191 million. NBC's LTD ratio has ranged from a low of 82% to a high of 105%, during these quarters.

In the peer group noted above, the latest market share data from the FDIC (June 2007) reports that NBC ranks first in deposit market share within the Duluth, MN—WI MSA. NBC held just over 9% of the deposit market share.

#### **Lending in Assessment Area (AA)**

NBC's lending in its AA is strong. NBC has extended a substantial majority of its primary loan product to borrowers located within the AA. Our sample of 30 business loans found that 87%, by number, and 80%, by dollar, of these loans were to borrowers within the AA. Our sample included business loans originated throughout 2006, 2007

and first quarter 2008.

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

NBC’s lending to businesses of different revenue levels is reasonable. Our sample of 30 business loans indicated that NBC is originating loans to businesses of different sizes consistent with the reported and estimated demographics of the AA.

Unfortunately, demographic data contains a high level of businesses of unknown size, as they chose not to report this information. However, examiner discussions with local lenders and business leaders during this evaluation indicate that there are no reasons to believe that the non reporters are proportionately different in size than those that did report this information.

<b>Borrower Distribution of Business Loans in Assessment Area</b>				
Business Revenues	< \$1,000,000	> \$1,000,000	Not Reported	Total
% of AA Businesses	58%	6%	36%	100%
% of Bank Loans by #	73%	27%	0%	100%
% of Bank Loans by \$	40%	60%	0%	100%

Source: Sample of 30 business loans and 2007 Business Geodemographic Data.

**Geographic Distribution of Loans**

NBC’s geographic distribution of business loans in the AA is strong. Our sample of 30 business loans and comprehensive bank data detailing distribution of all business loan originations throughout the evaluation period detail excellent dispersion throughout the AA. NBC has exceeded the demographics in lending to designated low- and moderate-income areas.

<b>Geographic Distribution of Business Loans in Assessment Area</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Businesses	19%	17%	43%	21%
% of Sampled Bank Loans by #	8%	12%	65%	15%
% of Sampled Bank Loans by \$	20%	8%	70%	2%
% of Bank Reported Loans by #, 12/02 – 3/08	13%	23%	52%	12%
% of Bank Reported Loans by \$	33%	20%	37%	10%

Source: 2007 Business Geodemographic Data, sample of 30 business loans, and internal bank reports that were verified reliable during this evaluation.

**Responses to Complaints**

The bank has not received any CRA-related complaints since its last CRA examination.

## **COMMUNITY DEVELOPMENT (CD) TEST**

NBC's performance under the community development test is satisfactory.

### **Number and Amount of Community Development Loans**

NBC's number and amount of CD loans is adequate. NBC originated 20 loans identified as community development loans during the evaluation period, totaling just over \$3.1 million. These loans supported affordable housing for low- and moderate-income home buyers and renters. [NBC did not begin to record CD loan data until 2007, including the 20 loans noted above.]

### **Number and Amount of Qualified Investments**

NBC's number and amount of qualified investments is adequate. NBC has provided qualified donations of \$114 thousand to a variety of local organizations throughout this evaluation period. These organizations target their services to individuals with low and moderate incomes. Such services support needs for housing, food, clothing, school supplies, and counseling. Donations to these organizations totaled \$21 thousand in 2007 and \$25 thousand in 2006, \$23 thousand in 2005, \$22 thousand in 2004 and \$23 thousand in 2003.

### **Extent to Which the Bank Provides Community Development Services**

NBC's performance in providing community development services in the AA is adequate. Services throughout the evaluation period have included key involvement with organizations that have provided training and oversight targeted to individuals with low and moderate incomes regarding deposit services, building wealth, and qualifying for home loans. With 2 offices in low-income geographies and another in a moderate-income geography, NBC makes its banking services available to these areas.

### **Responsiveness to Community Development Needs**

NBC has shown adequate responsiveness to community development needs throughout the evaluation period. NBC has supported these needs primarily through its focus upon small business needs but also in activities focused upon meeting affordable housing and other needs of individuals with low and moderate incomes.

### **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.