



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 5, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Berlin
Charter Number 4620**

**140 W. Huron Street
Berlin, WI 54923**

**Comptroller of the Currency
Milwaukee Field Office
1200 N. Mayfair Road - Suite 200
Wauwatosa, WI 53226**

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's loan-to-deposit ratio is reasonable.
- The bank originates a substantial majority of loans inside its assessment area.
- The geographic distribution of loans reflects an adequate dispersion throughout the assessment area given the bank's size, financial condition and the credit needs of the assessment area.
- There is an adequate distribution of loans to individuals of different income levels, including low- and moderate-income levels, and businesses of different sizes.

DESCRIPTION OF INSTITUTION

The First National Bank of Berlin (FNB-Berlin) is a \$203 million bank with the main office located in downtown Berlin, Wisconsin in a middle-income census tract (CT). The bank's full-service branches are located in the surrounding communities of Poy Sippi (opened 1998), Green Lake (opened 2000), Montello (opened 2001), Westfield (opened 2002) and Omro (2 locations - opened 2002 and 2003), Wisconsin all in middle-income CTs. The bank does not have any deposit-taking ATMs. The Green Lake, Montello, Westfield and Omro branches have opened since our previous performance evaluation. The bank is wholly owned by First Berlin Bancorp, Incorporated, a one-bank holding company also located in Berlin, Wisconsin with approximately \$220 million in total assets. All financial information is as of September 30, 2003, unless otherwise noted.

The bank offers traditional community bank products and services with a net loan portfolio representing 54% of total assets. The bank is primarily a small business and residential real estate lender. The dollar value of the loan portfolio consists of approximately \$58 million in commercial loans (52.7%), \$41 million in residential real estate loans (36.7%) and \$12 million in consumer loans (10.6%).

The bank offers Small Business Administration (SBA) and Wisconsin Housing and Economic Development Authority (WHEDA) loans. The bank is also involved in other local programs designed to benefit small businesses as well as low- and moderate-income individuals. From January of 2001 through December 2003 the bank originated a total of \$285,000 in loans guaranteed in whole or in part by the SBA and \$529,000 in WHEDA loans, as well as \$584,000 in loans to benefit rural development and low- and moderate-income borrowers.

There are no financial or legal impediments that would hinder the bank's ability to help meet the credit needs of its assessment area.

The previous CRA examination dated May 17, 1999 resulted in a satisfactory CRA rating.

DESCRIPTION OF ASSESSMENT AREA

FNB-Berlin's assessment area (AA) consists of 31 contiguous geographies located in six counties surrounding and including the City of Berlin. The AA includes all of Adams, Green Lake, Marquette and Waushara Counties as well as the western portions of Fond du Lac and Winnebago Counties. Geographies in Winnebago County are located in the Appleton-Oshkosh-Neenah Metropolitan Statistical Area (MSA #0460) and are entirely comprised of middle-income CTs. The remainder of the geographies in the bank's AA are in non-MSA areas, and contain both moderate- and middle income CTs. The AA contains just 4 moderate-income (13%) tracts with the remainder (87%) being middle-income CTs. Three of the four moderate-income tracts are in Adams County and one is located in Marquette County. The AA meets the regulatory criteria and does not arbitrarily exclude low- or moderate-income geographies.

According to 2000 census data, the population in the bank's assessment area is 123,901, comprised of 34,819 families. A breakdown of family income levels in the assessment area show 5,699 low-income families (16%), 7,309 moderate-income families (21%), 9,771 middle-income families (28%), and 12,040 upper-income families (35%). Of the total low-income families in the assessment area, 1,515, or approximately 27%, are below the poverty level. The updated Housing and Urban Development (HUD) estimated median family income for the Appleton MSA was \$61,700 in 2003, \$61,900 in 2002 and \$58,000 in 2001. The updated HUD estimated median family income for nonmetropolitan areas in Wisconsin was \$52,000 in 2003, \$50,800 in 2002 and \$48,400 in 2001. These amounts are used in the test of lending to borrowers of different incomes.

The 2000 census median family income for the Appleton-Oshkosh-Neenah MSA is \$56,178 and \$47,360 for nonmetropolitan areas in Wisconsin. These numbers are used in the geographic distribution of loans test. The median housing values within the AA are: \$124,590 in the Appleton-Oshkosh-Neenah MSA and \$87,840 in the nonmetropolitan portion of the AA. Of the 65,581 total housing units in the assessment area, 60% are owner-occupied.

The local economy is characterized as fairly stable. The economy experienced some weakening in 2003, but suffered no significant deterioration. Economic activity in the area is diverse, with health service, paper product manufacturing, industrial machinery and equipment and educational services being the primary economic activities. Area hospitals, Kimberly Clark, The Brunswick Corporation, and local schools and community colleges are the major employers in the area. According to the Wisconsin Department for Workforce Development, the unemployment rate in the state of Wisconsin is 4.5% as of November 2003, while the Appleton-Oshkosh-Neenah MSA's rate is 3.9%. These figures are not seasonally adjusted.

Competition among financial institutions in the area is strong. The bank's competitors within the assessment area include the main office and branches of community banks and large Wisconsin state banks, branches of multi-state banks, as well as credit unions. In total deposits, FNB-Berlin, with a market share of 3.89%, ranks ninth out of out of all FDIC-insured institutions with at least one branch located in the bank's AA. This reflects FDIC market share data as of June 30, 2003. The balance of the market share is divided among 34 other institutions with market shares ranging from 12% to less than 1%.

In conducting this assessment of the bank's performance, we contacted a member of a local

community group. 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. The contact did not indicate any areas with specific credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio is reasonable given its size, financial condition and the credit needs of the assessment area. FNB-Berlin's average quarterly loan-to-deposit ratio since the last examination is 80%. The bank ranks 7th in its peer group of 13 similarly situated banks. These are banks with less than \$250 million in average assets located in the AA. The average quarterly loan-to-deposit ratio for the bank's peers ranges from 67% to 114%. With average assets of \$198 million, FNB-Berlin has the third largest level of average assets compared to the peer group, which ranged in average assets from \$47 million to \$209 million.

Additionally, the bank originates residential real estate loans that are sold on the secondary market. These loans are not used in the loan-to-deposit calculation. FNB-Berlin originated and sold approximately \$95 million in secondary market loans between January 2001 and December 2003.

Lending in Assessment Area

The bank originates a substantial majority of loans inside its assessment area. This conclusion is based on an analysis of the original dollar amount and number of all commercial, residential real estate and consumer loans originated or renewed by the bank between January 1, 2001 and December 11, 2003. A comparison of zip code and census tract boundaries indicated they are similar; therefore, the location of borrowers with loans in the selected time period was determined using their zip code as a proxy for the census tract address. A report sorted by zip code and loan type was generated to complete the analysis. The following table illustrates the level of lending inside the bank's assessment area:

Penetration of Lending Inside the Bank's Assessment Area January 1, 2001 – December 11, 2003 Loan Originations and Renewals		
	% of Total Number of Loans Inside the Assessment Area	% of Total Dollar Amount of Loans Inside the Assessment Area
Commercial Loans	92%	93%
Consumer Loans	93%	91%
Residential Real Estate Mortgages	94%	92%
Total	93%	92%

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

The bank's lending practices represent reasonable penetration among individuals of different income levels and businesses of different sizes, including low- and moderate-income borrowers. The bank's primary loan products, namely commercial and refinanced residential real estate loans, were used in our sample and are depicted in the following tables. A sample of commercial loans located in the bank's assessment area indicates the following breakdown of annual revenues:

Lending Distribution Based on Revenue Size of Businesses January 1, 2001 – December 11, 2003			
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	2	8%	93%
\$100 - \$500	16	64%	
\$500 -< \$1,000	5	20%	
> or = \$1,000	2	8%	7%
Totals:	25	100%	100%

The table above shows 92% of the businesses sampled have revenues less than \$1 million. This is reasonable compared to the demographic data of the assessment area, where 93% of businesses have revenues less than \$1 million.

The following table is based on an analysis of 25 refinanced residential real estate mortgage loans containing income information for the borrower. These customers are located within the bank's assessment area and were randomly selected from all refinanced residential real estate mortgages originated from January 1, 2001 through December 11, 2003:

Lending Distribution Based on Income Level of Refinanced Residential Real Estate Borrowers January 1, 2001 – December 11, 2003 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	12%	12%	16%
Moderate	24%	21%	21%
Middle	40%	40%	28%
Upper	24%	27%	35%
Totals	100%	100%	100%

As shown above, 36% of the number and 33% of the dollar value of loans were made to low- and moderate-income borrowers, who make up 37% of the assessment area's families. The dollar value of loans for low-income borrowers is below the demographic characteristics of the

assessment area. This is indicative of the smaller loans that are typically requested by borrowers in this income range. In addition, over one-fourth (27%) of low-income families in the assessment area are below the poverty level. These families would not typically qualify for real estate mortgage loans. The bank's performance is considered reasonable based on these factors.

Geographic Distribution of Loans

FNB-Berlin has a reasonable dispersion of loans throughout its assessment area. Information from our commercial and refinanced residential real estate lending sample was used for this analysis. Lending is evident in a majority of the census tracts in the assessment area. The bank's lending in different census tract income categories is illustrated below:

	% of Number Originated in the Moderate- income census tract	% of Dollar Amount Originated in the Moderate-income census tract	% of Number Originated in the Middle- income census tract	% of Dollar Amount Originated in the Middle-income census tract
Commercial Loans	12%	9%	88%	91%
Percentage of Businesses in the Assessment Area (census information)	10%		90%	
Refinanced Real Estate Mortgages	16%	14%	84%	86%
Percentage of Owner-Occupied Housing in the Assessment Area (census information)	13%		87%	
Total Loans	14%	11%	86%	89%

The bank's lending activity is reasonable given the demographic characteristics of the assessment area. Lending to moderate-income CTs is reasonable, although lending was not evident in 2 of the 4 moderate-income CTs. The 2 CTs where lending was not evident are located in the western-most portion of the bank's AA in a county without any FNB-Berlin bank branches. The borrowers in these tracts have more convenient access to other financial institutions.

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 or Other Illegal Credit Practices Review

An analysis of 2001, 2002 and 2003 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 1998. We found no evidence of illegal discrimination or other illegal credit practices.