



INTERMEDIATE SMALL BANK

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

PUBLIC DISCLOSURE

April 9, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Baraboo National Bank
Charter Number 14397**

**101 3rd Avenue
Baraboo, WI 53913**

**Comptroller of the Currency
Milwaukee Field Office
1200 N Mayfair Rd, Suite 200
Milwaukee, 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 Outstanding.

INSTITUTION'S CRA RATING:

The Lending Test is rated: **Outstanding.**

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

Major factors supporting this rating include:

- The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and credit needs of the assessment areas (AA).
- A substantial majority of loan originations are made within the bank's AAs.
- The distribution of loans reflects excellent penetration among businesses of different sizes and reasonable penetration among individuals of different income levels.
- Geographic distribution of loans to small businesses is excellent, while geographic distribution of home mortgage loans is reasonable.
- The bank's community development performance through community development loans, qualified investments, and retail services demonstrates adequate responsiveness to community development needs in its assessment areas.

SCOPE OF EXAMINATION

We evaluated Baraboo National Bank's (BNB) Community Reinvestment Act (CRA) performance under the Intermediate Small Bank Lending and Community Development Tests. In evaluating the bank's lending performance we reviewed lending data for the bank's primary loan products, small business loans and home mortgage loans (including both purchase and refinance).

The evaluation covers the period from the date of the previous CRA Examination, August 23, 1999 through April 16, 2007. The Lending Test evaluated home mortgage and small business lending from January 1, 2005 to December 31, 2006 and the Community Development Test covered the community development loans, investments, and services during the entire evaluation period. Prior to conducting this evaluation, we tested the accuracy of the bank's Home Mortgage Disclosure Act (HMDA) data for 2005 and 2006. We found the data to be substantially accurate and therefore used all reported HMDA data for both years in our evaluation of home mortgage lending. To evaluate small business lending, we used both data from the bank's loan trial balance as well as random samples of business loans from each of the bank's three AAs.

Our analysis included full-scope evaluations for each of the bank's three AAs - Baraboo, Columbia County, and Northwoods.

The analysis for the Lending Test was performed using the most recent available demographic data. In addition, small business loans were weighted more heavily than home mortgage loans because this loan type is the bank's market niche.

We reviewed the bank's community development loans, investments, and services based on information provided by the bank. We only took into account those that met the regulatory definition of community development in our analysis of the Community Development Test.

DESCRIPTION OF INSTITUTION

BNB is a \$558 million dollar financial institution with its main office located in downtown Baraboo, Wisconsin. Baraboo is approximately 35 miles northwest of Madison. BNB is wholly owned by Baraboo Bancorporation, Incorporated (BBI), a \$740 million dollar three-bank holding company also located in Baraboo. Besides BNB, BBI owns and operates The State Bank of Viroqua and Green Lake State Bank. Both are wholly owned by BBI. In addition to the main office in Baraboo, BNB operates 10 full-service branches. There are branches on the east and west sides of Baraboo. The bank also operates a drive-through facility near the main office. In 2001, the bank opened the Southwest Branch. In 2002, the bank merged with an affiliate, the Bank of Wonewoc. In 2004, the bank opened branches in Portage and Reedsburg. In 2005, the bank acquired Northwoods National Bank and opened the Rhinelander and Elcho Branches. In addition to the branch locations, BNB operates 21 proprietary Automated Teller Machines (ATM's). Hours at the main office and the bank's branches are similar. All bank offices are open 5 days a week with the earliest opening at 7:30 a.m. and the latest closing at 6:00 p.m. The branches are also open on Saturdays until around noon. The Southwest Branch is open on Sunday until 1:00 p.m.

Net loans represent 75.74% of total assets at December 31, 2006. By dollar volume, the loan portfolio consists of commercial and industrial loans (22.35%), commercial real estate loans (24.81%), construction and land development loans (13.55%), residential real estate loans (27.63%), agricultural loans (1.65%), consumer loans and leases (8.34%), multifamily (0.65%), and other loans (1.02%). Tier 1 capital totaled \$49.362 million at December 31, 2006.

The bank's business strategy has historically been to operate with a community bank orientation while offering a wide range of products. The bank's primary market niche is commercial lending. This is evident by the fact that more than 50% of the bank's loan portfolio consists of commercial loans. The bank's strategy is particularly focused on lending to small businesses. In addition to offering a wide array of commercial loan products, BNB offers several home mortgage and consumer products. The bank offers internet and telephone banking as well as trust and investment services.

Competition from other financial institutions is strong. Including BNB, there are over 50 financial institutions serving the bank's assessment areas. As of June 30, 2006, BNB's deposit market share ranks third in its combined AA at 3.37%. In addition, there are several credit unions in the bank's AAs that are not included in the market share information.

There are no legal or financial factors impeding the bank's ability to help meet the credit

needs in its assessment areas. BNB was evaluated as a small bank and received an “Outstanding” rating at its prior CRA evaluation dated August 23, 1999.

DESCRIPTION OF THE BANK’S ASSESSMENT AREAS

BNB has three AAs including one AA in a Metropolitan Statistical Area (MSA). The bank’s Baraboo AA includes Sauk, Juneau, Richland, Monroe, Adams, Wood, and Marquette Counties. The bank’s Columbia County AA lies in the Madison, Wisconsin MSA. The bank’s Northwoods AA includes Oneida, Langlade, Menominee, Shawano, Forest, Lincoln, and Price Counties. The total population of the combined assessment area is 508,180. There are no low-, 22 moderate-, 108 middle-, and 3 upper-income tracts in the bank’s AAs.

The AAs comply with the regulatory requirements and do not arbitrarily exclude any low- or moderate-income geographies.

The 2000 U.S. Census estimated median family income (MFI) is \$45,607 for the bank’s Baraboo AA, \$52,717 for the Columbia County AA, and \$43,289 for the Northwoods AA. The 2006 updated Department of Housing and Urban Development (HUD) estimated MFI is \$54,900 for the bank’s Baraboo and Northwoods AAs and \$72,400 for the bank’s Columbia County AA.

The following table summarizes the income levels of census tracts and families located within the bank’s four assessment areas:

INCOME DISTRIBUTION OF CENSUS TRACTS AND FAMILIES												
Assessment Area	Census Tracts (# and %)								Percentage of Families			
	Low		Moderate		Middle		Upper		Low	Moderate	Middle	Upper
Baraboo	0	0%	11	16.4%	53	79.1%	3	4.5%	17.8%	20.2%	26.4%	35.6%
Columbia County	0	0%	4	33.3%	8	66.7%	0	0%	18.9%	25.7%	31.2%	24.3%
Northwoods	0	0%	7	13.0%	47	87.0%	0	0%	20.0%	21.0%	26.1%	33.0%
Total	0	0%	22	16.5%	108	81.2%	3	2.3%	18.7%	21.0%	26.8%	33.5%

Source: 2000 U.S. Census

The percentage of households below the poverty level is 8.91% in the Baraboo AA, 5.90% in the Columbia County AA, and 9.21% in the Northwoods AA.

The economy is considered diverse and stable. Major industries in all three AAs include light manufacturing, health care, services, agriculture, hospitality, and tourism. The state unemployment rate is 4.8% as of March 2007. Counties in the Baraboo AA that exceed the state average by more than half of a percentage point include Adams, Monroe, Juneau, and Marquette. All counties in the Northwoods AA except Shawano exceed the state average by more than half a percentage point. The unemployment rate in Columbia County is slightly below the state average.

We performed a community contact with an economic development organization located in the Baraboo AA to learn about the area's credit needs. The organization primarily works to serve area businesses through job training, encourage entrepreneurial activities in the area, and to recruit new businesses to relocate to the area. The individual stated that credit needs of families and businesses are diverse and did not identify any unmet credit needs in this AA. The individual also stated that the primary needs of businesses were working capital lines of credit and equipment financing. Overall assessment area credit needs are typical of those in most small cities and rural communities and include small business, small farm, residential, and consumer lending.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

BNB's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 100.52% over 29 quarters from December 31, 1999 to December 31, 2006.

No similarly situated commercial banks or state savings banks chartered within any of the counties comprising the bank's AAs were identified for comparison. The two banks closest were both more than \$200 million smaller than BNB. BNB ranks first of these three banks based on average loan-to-deposit ratio.

The average loan-to-deposit ratio of all 46 domestic commercial banks and state savings banks chartered within the bank's AAs was 79.85%. The ratios ranged from 43.97% to 114.64% with BNB ranking second among these institutions.

Financial Institution	Total Assets (December 31, 2006)	Average quarterly loan-to-deposit ratio (4Q99 – 4Q06)
Baraboo National Bank	\$580,037	101.52%
Bank of Wisconsin Dells	\$308,232	81.02%
River Bank	\$305,043	81.70%

Source: Bank Call Report Information

Lending in Assessment Areas

BNB originates a substantial majority of its loans to borrowers located within its assessment areas. We reviewed 288 commercial, 701 home refinance, and 530 home purchase loans originated during the evaluation period; these are the bank's primary loan products in order of importance. Approximately 91.5% percent by number and 89.6% percent by dollar volume of loans were made to businesses, and individuals located within the bank's assessment areas.

TOTAL LOANS REVIEWED

Loan Type	In Assessment Areas				Out of Assessment Areas			
	Number	% of Number	Dollars (000s)	% of dollars	Number	% of Number	Dollars (000s)	% of dollars
Commercial	268	93.06%	\$43,508	93.40%	20	6.94%	\$3,075	6.60%
Home Purchase	465	87.74%	\$48,102	84.38%	65	12.26%	\$8,905	15.62%
Home Refinance	657	93.72%	\$54,910	91.65%	44	6.28%	\$5,005	8.35%
Total	1,390	91.51%	\$146,520	89.61%	129	8.49%	\$16,985	10.39%

Source: 2005-2006 Home Mortgage Data and bank records (verified by examiners)

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

Overall borrower distribution is excellent for loans to small businesses in all three AAs. Borrower distribution for home mortgage loans is reasonable in the bank's Baraboo and excellent in the bank's Columbia County and Northwoods AAs. We gave the most weight to home mortgage loans in the Baraboo AA as they comprise a significant majority (69%) of the bank's home mortgage lending activity during the evaluation period.

As shown in the following table, the distribution of loans to businesses of various revenue sizes is excellent. The bank's lending exceeds the demographics in all three AAs.

Borrower Distribution of Business Loans						
Gross Annual Revenue	Baraboo AA		Columbia County AA		Northwoods AA	
	% of bank's loans	% of AA Businesses	% of bank's loans	% of AA Businesses	% of bank's loans	% of AA Businesses
<=\$1 million	80%	53.45%	70%	60.55%	90%	54.82%
>\$1 million	20%	4.09%	25%	4.31%	10%	3.62%
Revenue unavailable	0%	42.46%	5%	35.14%	0%	41.57%
Totals	100%	100%	100%	100.00%	100%	100%

Source: Sample of 60 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic Data

As shown in the following table, the distribution of home mortgage loans to borrowers of various income levels is reasonable in the Baraboo AA and excellent in the Columbia County and Northwoods AAs. The bank's percentage of loans to low-income borrowers is typically lower than the percentage of low-income families in the area. Our evaluation, however, gives consideration to the percentage of families living below the poverty level (8.91% in the Baraboo AA, 5.90% in the Columbia County AA, and 9.21% in the Northwoods AA).

Borrower Distribution of Home Mortgage Loans			
Borrower	Baraboo AA	Columbia County AA	Northwoods AA

Income Level	% of loans by bank AA	% of AA Families	% of loans by bank AA	% of AA Families	% of loans by bank AA	% of AA Families
Low	9.14%	17.78%	17.35%	18.87%	14.17%	19.94%
Moderate	21.24%	20.18%	25.51%	25.68%	20.65%	20.98%
Middle	31.27%	26.44%	34.69%	31.15%	27.94%	26.11%
Upper	34.36%	35.60%	19.39%	24.30%	34.41%	32.97%
Not available	3.99%	0%	3.06%	0%	2.83%	0%
Totals	100%	100%	100%	100%	100%	100%

Source: 2005-2006 Home Mortgage Data and U.S. Census Demographic Data

Geographic Distribution of Loans

Overall, geographic distribution is reasonable for business loans in the Baraboo AA and excellent in the Columbia County and Northwoods AAs. For home mortgage loans, geographic distribution is reasonable in the Baraboo AA and excellent in the Columbia County and Northwoods AAs.

The bank's business lending in the Baraboo AA trails the community demographics for 2006. While 13.69% of AA businesses are located in moderate income tracts, none of the sampled loans were to businesses in these tracts. There are several mitigating factors. First, the bank has no branches in these moderate income tracts. Second, three of the eleven moderate income tracts in this AA are located in Vernon County, which is served by the bank's affiliate, The State Bank of Viroqua. Third, five of the moderate income tracts in the Baraboo AA are in Juneau and Adams County, where the population density is sparse and the economy is predominantly service and agricultural, which suggests less demand for business credit (Source: Wisconsin Department of Workforce Development, December 2006).

In the Columbia County and Northwoods AAs, the bank's business lending substantially exceeds demographics. Each of the bank's branches in these AAs is located in moderate income tracts.

GEOGRAPHIC DISTRIBUTION OF BUSINESS LOANS			
Tract Income	Baraboo AA	Columbia County AA	Northwoods AA

Level	% of business loans by bank	% of AA Businesses	% of business loans by bank	% of AA Businesses	% of business loans by bank	% of AA Businesses
Low	0%	0%	0%	0%	0%	0%
Moderate	0%	13.60%	70%	35.49%	30%	13.09%
Middle	100%	82.91%	30%	64.51%	70%	86.91%
Upper	0%	3.49%	0%	0%	0%	0%
Totals	100%	100%	100%	100%	100%	100%

Source: Sample of 60 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic Data

Like with business lending, the bank's home mortgage lending in the Baraboo AA does not reflect the demographics. As shown in the table below, while 14.09% of owner-occupied units in this AA are located in moderate income tracts, the bank made only 5.15% of its loans to families in these tracts during the evaluation period. Again, this is because of the location of the bank's branches in relation to the moderate income tracts in this AA and the low population of these areas.

In the Columbia County and Northwoods AAs, the bank's geographic distribution of home mortgage loans is excellent. The percentage of loans originated in moderate income tracts exceeds the demographics.

GEOGRAPHIC DISTRIBUTION OF HOME MORTGAGE LOANS						
Tract Income Level	Baraboo AA		Columbia County AA		Northwoods AA	
	% of home mortgage loans by bank	% of AA owner-occupied	% of home mortgage loans by bank	% of AA owner-occupied	% of home mortgage loans by bank	% of AA owner-occupied
Low	0%	0%	0%	0%	0%	0%
Moderate	5.15%	14.09%	44.90%	33.78%	35.63%	12.78%
Middle	94.85%	80.75%	55.10%	66.22%	64.37%	87.22%
Upper	0%	5.16%	0%	0%	0%	0%
Totals	100%	100%	100%	100%	100%	100%

Source: 2005-2006 Home Mortgage Data and U.S. Census Demographic Data

Targeted Loan Programs

BNB also participates in the following loan programs that target or primarily benefit low- and moderate-income (LMI) individuals. These loans were included in the totals under the

lending test above.

Rural Development Loan Program – Borrowers must have an adjusted annual household income that does not exceed the moderate income limits for the area in order to qualify for this program. Total loans originated under this program: 13 at \$1,279,000.

Wisconsin Housing and Economic Development Authority (WHEDA) Home Program - This program is a first-time home buyer program that provides below-market fixed interest rates and allows for a lower down payment than conventional mortgage programs. This program primarily benefits LMI borrowers. These are not reported under HMDA, but the bank services these loans. The bank originated 2 loans under this program at \$110,000.

Federal Home Loan Mortgage Corporation ("FHLMC") Home Possible Program - This program is a down payment and closing cost assistance program for first-time homebuyers with incomes less than the median county income. Total loans originated under this program: 5 at \$458,000.

Community Development Test

The bank's performance under the Community Development Test is rated satisfactory.

Community development lending, investment and service activities reflect adequate responsiveness to community development needs in relation to the bank's capacity and assessment area opportunities.

Community Development Loans

BNB originated two qualifying community development loans totaling \$861,000 during the evaluation period. These loans were to a nonprofit organization that provides housing-related community services and provides funding for the rehabilitation of homes owned by low- or moderate-income individuals. This organization serves both the bank's Baraboo and Columbia County AAs.

In addition to the qualified community development loans noted above, BNB originated nine commercial loans totaling \$3 million that have as their purpose community development, but which are otherwise considered small business loans. These loans resulted in, among other things, stabilization and job retention in a moderate-income tract, housing services for low- and moderate-income individuals, and the permanent financing of an office building for a non-profit organization.

BNB's performance in this area, with consideration given to the available opportunities, reflects adequate responsiveness to the communities' needs.

Qualified Investments

During the evaluation period, the bank's qualified investments include donations to 17 organizations totaling \$11,711. All funds are specifically targeted to benefit LMI persons or support organizations whose major purpose is revitalizing low- and moderate-income census tracts within the AAs. The level of investments reflects adequate responsiveness to the communities' needs.

Community Development Services

BNB has branches in three moderate-income census tracts in its AAs. BNB offers a full range of consumer and commercial banking products and services at all of its branches. In addition to their full-service branch and ATM locations, BNB also offers Internet banking and telephone banking for added availability to the bank's products.

Small Business Administration (SBA) loans are available for businesses that may not qualify for conventional loan terms. The bank is designated a "preferred lender," which allows a streamlined application process.

During the evaluation period, BNB's employees provided technical assistance and financial expertise to approximately eight different community development organizations.

Bank personnel serve as officers or board members for organizations that promote small business and that provide affordable housing and community services to low- and moderate-income individuals. Although not a comprehensive list, some of the community development services include:

- A senior bank employee serves as chairman of a county economic development corporation in the Baraboo AA. The organization's purpose is to serve existing small businesses and spur economic growth. As the chairman, the bank employee provides financial and technical expertise to the organization and its clients.
- Bank employees serve on boards of similar economic development corporations in the Columbia County and Northwoods AAs.
- A bank employee serves on the board of a nonprofit housing-related organization that serves exclusively low- and moderate-income individuals in the Baraboo and Columbia County AAs. As a board member, the bank employee provides financial and technical advice by assisting the organization in the administration of its loan programs.
- A bank employee serves on a county Revolving Loan Fund Committee in the Columbia County AA. That employee provides financial and technical expertise by reviewing commercial loan applications and discussing the impact on the area.

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.