

# **PUBLIC DISCLOSURE**

November 13, 2017

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Port Washington State Bank  
Certificate Number: 8698

206 N. Franklin Street  
Port Washington, WI 53074

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
Chicago Regional Office

300 South Riverside Plaza, Suite 1700  
Chicago, Illinois 60606

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 RATING

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The Port Washington State Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test and Community Development Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test and Community Development Test performance.

**The Lending Test is rated Satisfactory.**

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a majority of its home mortgage and small business loans in the assessment area.
- Because the bank's assessment area does not include low- or moderate-income geographies, a review of geographic distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.
- The distribution of borrowers reflects excellent penetration of loans among individuals of different income levels and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

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

- The institution demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the assessment area.

## SCOPE OF EVALUATION

### *General Information*

This evaluation covers the period from the prior evaluation dated October 14, 2014, to the current evaluation dated November 13, 2017. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate The Port Washington State Bank's CRA performance. These procedures include two tests: the CRA Small Bank Lending Test and the Community Development Test.

The Lending Test considered the institution's performance according to the following criteria.

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

The Community Development Test considered the following factors.

- Number and dollar amount of community development loans, qualified investments, and community development services
- The responsiveness of such activities to the community development needs of the assessment area

Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating. This evaluation does not include any lending activity performed by affiliates.

### *Loan Products Reviewed*

Examiners determined that the bank's major product lines are home mortgage and small business loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Home mortgage loans include all home purchase, home improvement, home refinance, and multifamily loans reported pursuant to the Home Mortgage Disclosure Act (HMDA) requirements. The bank optionally collects data pursuant to the data collection requirements of CRA, and that data was used to evaluate the bank's small business lending. Small business loans are defined as loans made to businesses secured by nonfarm nonresidential properties or are classified as commercial and industrial loans with a loan size of \$1 million or less.

The bank's record of originating home mortgage loans contributed slightly more weight to overall conclusions than small business loans due to management stating that it is the bank's primary lending focus. No other loan types, such as small farm or consumer loans, represent a major product line. Therefore, they provided no material support for conclusions or ratings and are not presented.

Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period. This evaluation considered all home mortgage loans reported on the

## DESCRIPTION OF INSTITUTION

### ***Background***

The Port Washington State Bank is headquartered in Port Washington, Wisconsin and operates exclusively in Ozaukee County in southeastern Wisconsin. The institution is wholly owned by a one-bank holding company, Port Bancshares, Inc., also headquartered in Port Washington. The bank holding company has one subsidiary, Port State Investments, Inc. The Port Washington State Bank received a Satisfactory rating at its previous FDIC Performance Evaluation dated October 14, 2014, based on Interagency Intermediate Small Institution Examination Procedures.

### ***Operations***

The bank operates six full-service branches located in Belgium, Cedarburg, Fredonia, Grafton, Saukville, and Thiensville. The Thiensville branch is new since the previous performance evaluation and was opened in June 2017. In September 2015, the bank closed its Walters Street branch, which was located in a middle-income census tract in Port Washington. The Cedarburg and Grafton branches are located in upper-income census tracts, and the main office and four branches are located in middle-income census tracts. No merger or acquisition activities occurred since the previous evaluation.

The bank offers a wide range of traditional consumer and commercial banking products and services. Consumer loans include home mortgage, construction, mobile home, home equity lines of credit, vehicle, and other personal loans. Commercial loan products include working lines of credit, letters of credit, term loans, construction loans, and real estate loans. The bank offers two internally developed loan programs. The affordable loan program provides low interest rates on short-term loans to consumers of \$5,000 or less, and the small business loan program provides low cost loans between \$5,000 and \$50,000 to new and existing businesses. The bank also offers loans through various government programs. Further explanations on the bank's special loan programs and the government loan programs appear in the Borrower Profile section.

The institution provides a variety of deposit products and services including checking, savings, certificates of deposit, individual retirement accounts, and health savings accounts. A consumer checking account with no minimum balance and no service charge with direct deposit is offered. A consumer checking account that provides consumers with a second chance to open a checking account after completing financial education is a new product that was launched in September 2016. Alternative banking services include internet and mobile banking, telephone banking, electronic bill pay, remote deposit capture, person-to-person payments, and eight automated teller machines (ATMs). The bank participates in the Wisconsin Community Bank ATM Access program where free statewide access to funds is provided to the bank's customers at participating ATMs.

### ***Ability and Capacity***

Assets totaled \$530.2 million as of September 30, 2017, and included total loans of \$387.8 million, total securities of \$97.9 million, and total equity capital of \$47.2 million. Commercial loans represent the largest concentration of the bank's lending activity at 46.8 percent of the portfolio, while home mortgage loans represent the second largest concentration at 42.4 percent. The current loan portfolio make-up is illustrated in the following table.

- Of the 19 community development loans for affordable housing, 4 totaling \$5.4 million were used to create affordable housing in the assessment area. These loans demonstrate the bank’s responsiveness to this community development need identified by a community contact.
- The bank renewed an \$800,000 loan each year (three times) to a national organization that provides safe and secure living environments for low- and moderate-income senior citizens through the provision and administration of a nationally acclaimed crime-stoppers program. The funds were used to purchase securities with the primary purpose identified as community development. These securities include affordable housing, home mortgages for low- and moderate-income borrowers, affordable healthcare facilities, job creation and small business development, and other community development initiatives.
- The remaining 12 community development loans for affordable housing for \$7.1 million are for affordable housing projects in adjacent Washington County.
- The bank’s community development loans for economic development consist of seven loans totaling \$1.6 million to businesses creating jobs in tax increment financing districts in the assessment area, one SBA loan for \$183,000 for expansion and job creation in the assessment area, and one SBA 504 loan for \$968,000 outside of the assessment area in adjacent Milwaukee County.

**Qualified Investments**

The bank made 133 qualified investments totaling \$2.2 million. This dollar amount of qualified investments equates to 0.4 percent of average total assets, 5.1 percent of average equity capital, and 1.9 percent of average securities since the prior evaluation. This level exceeds the 96 qualified investments totaling \$654.0 thousand at the previous evaluation, which equaled 0.1 percent of assets, 1.7 percent of equity capital, and 0.5 percent of securities. The following table illustrates the bank’s community development investments by year and purpose.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Total	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2015	8	2	21	1,163	22	25	0	0	51	1,190
2016	3	8	21	360	20	18	0	0	44	386
2017*	7	535	21	63	10	10	0	0	38	608
<b>Total</b>	<b>18</b>	<b>545</b>	<b>63</b>	<b>1,586</b>	<b>52</b>	<b>53</b>	<b>0</b>	<b>0</b>	<b>133</b>	<b>2,184</b>

*Source: Bank Records. \*Through 11/13/2017.*

Brief explanations of the bank’s qualified investments follow.

- The bank’s qualified investments for affordable housing consist of one bond for \$534,000 for a 112-unit affordable housing complex in Port Washington and \$11,000 in qualified donations in the assessment area.
- The bank’s qualified investments for community services consist of a \$1.1 million Illinois school bond, a \$308,000 Michigan school bond, and remainder in qualified donations. The bonds are for schools where a majority of students receive free or