



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 14, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lakewood Bank, National Association
Charter Number 15214

1100 Highway 210 West
Baxter, MN 56425

Office of the Comptroller of the Currency

Minneapolis Field Office
222 South Ninth Street, Suite 800
Minneapolis, MN 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 major factors supporting this rating include:

- The bank's average loan-to-deposit ratio is outstanding.
- A majority of loan originations are made in the bank's assessment area.
- The distribution of loans reflects reasonable penetration among businesses of different sizes and individuals with different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

SCOPE OF EXAMINATION

We evaluated Lakewood Bank National Association's (Lakewood Bank) Community Reinvestment Act (CRA) performance. We reviewed lending data for commercial and residential real estate loans, the bank's primary products. Based on originations from January 1, 2007 through June 30, 2009, commercial loans totaled 37.04% of loan originations by number and 69.31% by dollar volume. Residential real estate loans totaled 19.68% of loan originations by number and 19.40% by dollar volume. We selected a random sample of 20 loans from each of these product types in order to conduct our analysis.

DESCRIPTION OF INSTITUTION

Lakewood Bank is a \$139 million bank chartered in Baxter, MN. The bank is wholly owned by BlackRidge Financial, Inc., a three-bank holding company headquartered in Fargo, ND. Lakewood Bank has four full-service locations, all in Crow Wing County. These are in downtown Nisswa, Baxter, Reed's Market in Crosslake, and Schaefer's Foods in Nisswa. The bank has seven non-deposit taking Automatic Teller Machines (ATMs) - one ATM at each branch location, two at Grandview Lodge in Nisswa, MN, and one at Bar Harbor in Lakeshore, MN.

Lakewood Bank is a full-service bank and offers a variety of banking products designed to meet the needs of the assessment area. As of June 30, 2009, the bank's \$119 million loan portfolio consisted of 81% residential real estate loans, 15% commercial loans, 3% consumer loans, and 1% agricultural loans. Net loans made up 85% of total assets.

There are no legal, financial, or other factors that impede Lakewood Bank's ability to help meet the credit needs in the assessment area. At their last CRA examination, dated September 4, 2003, the bank received a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

Lakewood Bank's assessment area (AA) consists of fifteen contiguous census tracts (CT) located in Crow Wing and Cass Counties. There are two moderate-income tracts and thirteen middle-income tracts. There are no low- or upper-income tracts. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

Unemployment levels in Cass and Crow Wing Counties are slightly higher than statewide averages. According to the U.S. Bureau of Labor Statistics, unemployment levels in the state of Minnesota as of June 30, 2009 were 8.4% compared to 9.3% in Cass County and 9.4% in Crow Wing County. Based on the Department of Housing and Urban Development's 2009 updated information, median family income is \$58,500. The 2000 U.S. Census data reported that 10.29% of the households are below the poverty level. See the chart below for information about the bank's AA.

| Demographic and Economic Characteristics of Lakewood Bank's AA | |
|--|-----------|
| <i>Population</i> | |
| Number of Families | 18,292 |
| Number of Households | 26,349 |
| Number of Low-Income Families | 3,259 |
| % of Low-Income Families | 17.82% |
| Number of Moderate-Income Families | 3,631 |
| % of Moderate-Income Families | 19.85% |
| Number of Middle-Income Families | 4,591 |
| % of Middle-Income Families | 25.10% |
| Number of Upper-Income Families | 6,811 |
| % of Upper-Income Families | 37.23% |
| <i>Geographies</i> | |
| Number of Census Tracts | 15 |
| % Low-Income Census Tracts | 0.00% |
| % Moderate-Income Census Tracts | 13.33% |
| % Middle-Income Census Tracts | 86.67% |
| % Upper-Income Census Tracts | 0.00% |
| <i>Median Family Income (MFI)</i> | |
| 2000 MSA MFI for AA | \$45,608 |
| 2000 HUD-2009 Adjusted MFI | \$58,500 |
| <i>Economic Indicators</i> | |
| Unemployment Rate Crow Wing County | 9.40% |
| Median Housing Value | \$111,494 |
| % of Households Below Poverty Level | 10.29% |

Source: 2000 U.S. Census Data

Bank competition is moderate with sixteen financial institutions having offices in Crow Wing County. Of those financial institutions, Lakewood Bank had the sixth highest

deposit volume, with 8.88% of the market share according to the June 30, 2008 Federal Deposit Insurance Corporation Deposit Market Share Report.

Our community contact indicated that local financial institutions are active in the community and have a positive impact in the AA by financing business and residential real estate loans. The contact stated that Lakewood Bank and its employees are active in local community projects.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio (LTD) is outstanding given the bank's size, financial condition, and lending opportunities within its AA. The quarterly LTD ratio averaged 100.84% in the 24 quarters since the previous CRA examination. Similarly situated banks have quarterly average LTD ratios ranging from 73.37% to 99.56% over the same time frame. These banks have a presence in Crow Wing County with total assets ranging from \$99 million to \$181 million.

| Average Loan-to-Deposit Ratio | Assets Size (as of 06/30/2009) | Average LTD Ratio (3Q03 to 2Q09) |
|-------------------------------|-----------------------------------|-------------------------------------|
| Institution | | |
| Lakewood Bank, N.A | \$139 million | 100.84% |
| Northern National Bank | \$110 million | 99.56% |
| Lakes State Bank | \$99 million | 89.35% |
| Unity Bank | \$181 million | 73.37% |

Source: OCC Financial Institution Data Retrieval System (FINDRS)

Lending in Assessment Area

Lakewood Bank's lending in the AA is satisfactory. A majority of loan originations, 87.50% by number and 83.80% by dollar volume, were originated within the bank's AA. The following table provides additional detail:

| Lending in Lakewood Bank's AA | | | | | | | | | | |
|-------------------------------|-----------------|--------|---------|--------|-------|------------------|--------|-------------|--------|-------------|
| | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | # | \$ | % | \$ | % | \$ |
| Real Estate Loans | 16 | 80.00% | 4 | 20.00% | 20 | \$2,870,607 | 77.52% | \$832,347 | 22.48% | \$3,702,954 |
| Commercial Loans | 19 | 95.00% | 1 | 5.00% | 20 | \$2,991,155 | 90.88% | \$300,000 | 9.12% | \$3,291,155 |
| Total | 35 | 87.50% | 5 | 12.50% | 40 | \$5,861,762 | 83.81% | \$1,132,347 | 16.19% | \$6,994,109 |

Source: Loan Sample

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

Lakewood Bank’s lending to businesses of different sizes and borrowers of different incomes meets the standard for satisfactory performance.

Distribution of Commercial Loans to Businesses of Different Sizes

The distribution of loans reflects reasonable penetration among businesses of different sizes. Our random sample of 20 commercial loans indicates that 70% of loans by number and 80% of loans by dollar amount were to businesses with gross annual revenues less than or equal to \$1 million. AA demographics indicate nearly 81% of businesses in the AA have sales of \$1 million or less, 3% have sales over \$1 million, and 16% did not report revenue data.

| Borrower Distribution of Loans to Businesses in Lakewood Bank’s AA | | | | |
|--|--------------|--------------|-------------------------|---------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 80.89% | 3.14% | 15.97% | 100.00% |
| % of Bank Loans in AA by # | 75.00% | 25.00% | 0.00% | 100.00% |
| % of Bank Loans in AA by \$ | 83.33% | 16.67% | 0.00% | 100.00% |

Source: Loan Sample and 2009 Geodemographic Data

Distribution of Residential Real Estate Loans to Borrowers of Different Incomes

Lakewood Bank has a reasonable penetration of residential real estate lending to borrowers of different income levels. The following table compares the demographic information of families located within the AA to those made by the bank from our random sample of 20 residential real estate loans. Lakewood Bank’s overall distribution of lending to low- and moderate-income borrowers is lower than the percentage of low- and moderate-income families in the AA. According to 2000 U.S. Census data, the population includes the 10.29% of families in the AA living below the poverty level, which have more difficulty in qualifying for a home purchase loan.

| Borrower Distribution of Residential Real Estate Loans in Lakewood Bank’s AA | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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 |
| Residential RE | 17.82% | 10.00% | 19.85% | 15.00% | 25.10% | 20.00% | 37.23% | 55.00% |

Sources: 2007-2009 HUD Estimated Median Family Income for non-metro area of MN, Loan Sample, and 2000 census data

Geographic Distribution of Loans

The overall geographic distribution of loans throughout the AA meets the standard for satisfactory performance.

Geographic Distribution of Business Loans

Lakewood Bank displays excellent dispersion in lending to businesses located in moderate-income CTs. As shown in the following table, the percentage of loans extended to businesses located in the moderate-income CTs exceeds the percentage of businesses located in moderate-income CTs in the bank's AA.

| Geographic Distribution of Loans to Businesses in Lakewood Bank's AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| | N/A | N/A | 11.92% | 15.00% | 88.08% | 85.00% | N/A | N/A |

Source: CRA Loan Sample and 2009 Geodemographic Data

Geographic Distribution of Residential Real Estate Loans

The dispersion of Lakewood Bank's residential real estate lending is less than reasonable in the moderate-income CTs. The percentage of residential real estate loans located in moderate-income CTs is below the percentage of owner-occupied housing unite in moderate-income CTs. In addition, the level of renter-occupied housing is more than twice that of owner-occupied in the moderate-income tracts. Lakewood Bank does not have any branches in the moderate-income CTs, however, there are four other financial institutions within those tracts.

| Geographic Distribution of Residential Real Estate Loans in Lakewood Bank's AA | | | | | | | | |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| 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 |
| | N/A | N/A | 10.47% | 5.00% | 89.53% | 95.00% | N/A | N/A |

Source: CRA Loan Sample and 2000 US Census Data

Responses to Complaints

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

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.