



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 15, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Brainerd Savings & Loan, Federal Association
Charter Number 706979

524 South 6th Street
Brainerd, MN 56401-3542

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: Satisfactory

The major factors supporting the bank's rating include:

- The Loan-to-Deposit ratio is more than reasonable considering the bank's size, location, financial condition, and local economic conditions.
- A majority of loans originated are located inside the assessment area.
- The borrower distribution reflects excellent penetration of residential real estate loans originated to families of low- or moderate-income when compared to area demographics.
- The geographic distribution of originated residential real estate loans among low- and moderate-income census tracts within the bank's assessment area demonstrates a reasonable dispersion.

SCOPE OF EXAMINATION

We evaluated Brainerd Savings & Loan's (BS&L) record of meeting the credit needs of the community, consistent with the provisions set forth in the Community Reinvestment Act (CRA). The assessment period spanned from August 21, 2006 to February 15, 2012.

Loan sampling was conducted to arrive at conclusions in relation to the bank's lending performance. In order to determine the bank's lending performance, we selected primary products based loan balances as of December 31, 2011. Residential real estate loans are the bank's primary product. These loans represent the largest percentage of dollar volume in the loan portfolio. The table below illustrates the average dollar volume of loans held by the BS&L during the period January 1, 2009 to December 31, 2011.

Loan Products	\$ (000s)	% of Loans
Residential Real Estate Loans	43,337	85.50%
Non-residential Real Estate Loans	4,428	8.74%
Consumer Loans	1,939	3.82%
Construction Loans	755	1.49%
Business Loans	229	0.45%
Total	50,688	100%

Thrift Financial Report - Average loans held 1/1/09 to 12/31/11

A sample of 20 residential real estate loans from the designated period was used to determine lending distributions to borrowers and their geographies. Demographic information from the assessment area was used to assess lending performance. The ratio of the bank's loans to deposits was compared with other local, similarly situated, banks. We reviewed the area's financial, economic, and other environmental factors with members of bank management and discussed these factors with a community contact whose work involves the funding of low- and

moderate-income housing in the bank's assessment area. We used this information to determine what role the bank plays in meeting the lending needs of the community it serves.

DESCRIPTION OF INSTITUTION

Brainerd Savings & Loan is a federally chartered mutual savings and loan association with total assets of \$65.1 million as of December 31, 2011. BS&L is not owned by a holding company. The institution is a traditional thrift with lending focused on single-family mortgage loans for purchase and refinance, construction and construction-permanent financing, open-end and closed-end home equity loans, and consumer loans for a variety of purposes. The institution offers specialty products for low-income and first time homebuyers, and offers a number of mortgage products in-house, and through secondary market sources.

The composition of the bank's asset portfolio is concentrated primarily in residential permanent loans (1-4 family mortgages), representing 65.8 percent of total assets. Other significant asset types include investment securities, representing 14.44 percent of total assets. To a lesser degree, the institution is involved in consumer and commercial real estate lending. The institution's main office is located in Brainerd, Minnesota, with a full-service branch located in the adjoining community of Baxter, Minnesota. The institution does not operate any off-site ATMs.

BS&L received a "Satisfactory" rating on its last CRA examination dated August 21, 2006.

DESCRIPTION OF ASSESSMENT AREA

BS&L has defined its assessment area (AA) to include the Minnesota counties of Crow Wing and the southern portion of Cass Counties. The AA is predominately rural and does not include a Metropolitan Statistical Area (MSA). Total population of the AA is 68,638 people based on 2000 census data. The area includes 16 census tracts, of which two are moderate-income tracts and 14 are middle-income tracts. There are no low-income or upper-income tracts in the assessment area. The two moderate-income census tracts are located in Crow Wing County and span the eastern side of the city of Brainerd.

The bank's AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income tracts.

The bank's offices are located in Crow Wing County, approximately 150 miles to the northwest of the Minneapolis-St. Paul area. The institution's main office is located near downtown Brainerd on Business Highway 371. The branch office is located approximately five miles away in Baxter, MN. The Brainerd Lakes region is a popular vacation and tourism area. Resort and outdoor recreation industries are the major components of the area's economy. The area is rural but does not have an agriculturally-based economy as farm businesses in the AA make up only 3.56 percent of all AA businesses.

Unemployment rates in the area as of December 31, 2011 were 8.5 percent for Crow Wing County and 10.0 percent for Cass County. This unemployment rate is high as compared to the Minnesota average of 5.7 percent and the national average of 8.3 percent. *Source: US Bureau of Labor Statistics*

The following table illustrates the demographics of the bank's AA:

Demographic and Economic Characteristics of the AA	
<i>Population</i>	
Number of Families	19,168
Number of Households	27,563
Number of Low-Income Families	3,462
% of Low-Income Families	18.06%
Number of Moderate-Income Families	3,864
% of Moderate-Income Families	20.16%
Number of Middle-Income Families	4,803
% of Middle-Income Families	25.06%
Number of Upper-Income Families	7,039
% of Upper-Income Families	36.72%
<i>Geographies</i>	
Number of Census Tracts	16
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	12.5%
% Middle-Income Census Tracts	87.5%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$44,664
2011 HUD-Adjusted MFI	\$59,200
<i>Economic Indicators</i>	
2000 Median Housing Value	\$110,279
% of Households Below Poverty Level	10.34%

Source: 2000 U.S. Census Bureau

Competition from other financial institutions is moderate. BS&L ranks 13th in deposit market share among 19 financial institutions. As of June 30, 2011, BS&L's deposit market share was 3.10 percent or \$46 million.

We contacted a member of the Central Minnesota Housing Partnership (CMHP) during this CRA examination. This community contact indicated CMHP has started to obtain funding for some of its programs from government sources rather than financial institutions. Although CMHP now relies less on area banks for funding, the contact noted that BS&L helps to teach a first time

homebuyers course known as “Home Stretch”. The program was designed by the Minnesota Housing Finance Agency and is administered to low- and moderate-income clients by the partnership. BS&L frequently assists in leading these training courses. The community contact had a positive perception of BS&L and their efforts in meeting community lending and financial education needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s performance under the Lending Test is Satisfactory:

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is more than reasonable considering its size, location, financial condition, and local economic conditions in the bank's AA. The bank's average LTD ratio was 122.22 percent based on quarterly Thrift Financial Report data collected since the last CRA evaluation. The LTD ratio fluctuated from a low of 103.40 percent to a high of 127.76 percent over a period from June 30, 2006 through December 31, 2011.

The bank's LTD ratio ranks as the highest among four of the most similarly situated banks within the AA. The financial institutions used in comparison were most comparable in asset size, operate offices within the AA and offer similar loan and deposit products.

The following table illustrates BS&L’s average LTD in comparison to similarly situated banks.

Loan-to-Deposit Ratio Institution	Assets (\$000s)	Average LTD Ratio
Lakes State Bank	102,194	88.73%
Woodland Bank	109,743	87.61%
Pine River State Bank	89,352	77.57%
Security State Bank of Aitkin	85,433	88.23%
Brainerd Savings & Loan	65,066	122.22%

Source: FDIC Deposit Market Share Report and Financial Report Data 6/30/06 - 12/31/11

Lending in Assessment Area

BS&L originated a majority of loans by number and dollar volume inside the AA. Our sample of 20 loans indicated that BS&L originated 85 percent of the loans by number and 88 percent of the loans by dollar volume in the AA. The table below illustrates the bank’s commitment to lending in its AA.

Lending in BS&L’s AA										
Loan Type	Number of Loans				Dollars of Loans					
	Inside		Outside		Total	Inside		Outside		Total (\$000s)
	#	%	#	%		\$000s	%	\$000	%	

Residential Real Estate Loans	17	85%	3	15%	20	\$1,859	88%	\$248	12%	\$2,106
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Source: Residential Real Estate Loan Sample

Lending to Borrowers of Different Incomes

The distribution of borrowers reflects excellent penetration among borrowers of different income. The bank’s penetration among low- and moderate-income borrowers compares favorably to the aggregate HMDA lending data for 2010. The table below illustrates the distribution of borrowers across different income levels compared to the aggregate reported (HMDA) data of banks in the AA.

Borrower Distribution of Residential Real Estate Loans in AA Compared to Aggregate HMDA Reporting Banks								
Income Level of Borrower	Low		Moderate		Middle		Upper	
Loan Type	% of HMDA Aggregate Lender	% of Number of Loans	% of HMDA Aggregate Lender	% of Number of Loans	% of HMDA Aggregate Lender	% of Number of Loans	% of HMDA Aggregate Lender	% of Number of Loans
Residential Real Estate Loans	6.57%	25.0%	14.68%	35.0%	17.53%	15.0%	50.13%	25.0%

Source: Loan Sample; 2000 Aggregate HMDA Data (HMDA “income data not reported”= 11%)

BS&L’s lending to borrowers of different income levels are consistent with the demographics of the bank’s AA. The table below illustrates the distribution of borrowers across different income levels compared to the AA’s demographics.

Borrower Distribution of Residential Real Estate Loans in AA Compared to Census Tract Distribution								
Income Level of Borrower	Low		Moderate		Middle		Upper	
Loan Type	% 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 Real Estate Loans	18.06%	25.0%	20.16%	35.0%	25.06%	15.0%	36.72%	25.0%

Source: Loan Sample; 2000 Census Demographic Data

Geographic Distribution of Loans

The geographic distribution of loans to families in low- and moderate-income areas reflects reasonable dispersion. The aggregate HMDA data mirrors the bank’s performance in geographic distribution of loans to borrowers located in different income level tracts. The following table illustrates BS&L’s lending in different geographies as compared to aggregate reported HMDA data for banks in the AA.

Geographic Distribution of Residential Real Estate Loans in AA Compared to Aggregate HMDA Reporting Banks								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of HMDA Aggregate Lender Tracts	% of Number of Loans						
Residential Real Estate Loans	0.0%	0.0%	5.29%	5.0%	94.71%	95.0%	0.0%	0.0%

Source: Loan Sample; 2000 Aggregate HMDA Data

Demographic data shows that 10 percent of owner-occupied homes in the AA are located in moderate-income census tracts; however only 5 percent of loans were found to be originated to borrowers in moderate-income census tracts. This level is below the expected distribution but is reasonable given the limited number of moderate tracts in the AA (two moderate-income tracts of a total 16). Additionally, a 5 percent differential is equal to one loan in our sample. The following table illustrates BS&L’s lending in different geographies compared to the amount of owner-occupied housing in the AA.

Geographic Distribution of Residential Real Estate Loans in AA Compared to Census Tract Income Levels								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans						
Residential Real Estate Loans	0.0%	0.0%	9.97%	5.0%	90.03%	95.0%	0.0%	0.0%

Source: Loan sample; 2000 Census Demographic Data

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 illegal discrimination or other illegal credit practices inconsistent with helping to meet community credit needs.