



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**February 15, 2012**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Liberty Savings Bank, FSB  
Charter Number 711882

111 7th Ave S  
Saint Cloud, MN 56301-4258

Office of the Comptroller of the Currency

Minneapolis Field Office  
222 South Ninth Street, Suite 800  
Minneapolis, Minnesota 55402

**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.**

The major factors supporting the institution's rating include:

- The average loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the assessment areas.
- The majority of loan originations are made inside the assessment areas.
- The overall distribution of borrowers reflects excellent penetration among individuals of different income levels.
- The overall geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The community development services benefit the assessment areas and contributed to the overall rating.

**SCOPE OF EXAMINATION**

We assessed Liberty Savings Bank's record of meeting the credit needs of the community, consistent with the provisions set forth in the Community Reinvestment Act (CRA).

This examination entailed a full scope review of the bank's two assessment areas, which consist of designated census tracts within the Minneapolis-St. Paul-Bloomington, Minnesota (MN)-Wisconsin (WI) Metropolitan Statistical Area (MSA) and the St. Cloud, MN MSA. In order to determine the bank's lending performance, we selected primary products for each assessment area using the average outstanding loan balances for the period beginning January 1, 2009 and ending December 31, 2011. Based on this analysis, we determined that residential real estate loans are the bank's primary products. As of December 31, 2011, residential real estate loans totaled \$92 million, or 91 percent of the total loan portfolio. We used the Home Mortgage Disclosure Act (HMDA) loan application register (LAR) data over the same time period noted above to conduct our analysis.

The St. Cloud, MN assessment area carried the most weight in assigning the overall ratings for the bank. This assessment area contains four of the five bank branches, 84 percent of deposits, and 73 percent of the loan originations.

**DESCRIPTION OF INSTITUTION**

Liberty Savings Bank (Liberty) is a \$164 million federally-chartered stock savings bank located in central Minnesota. The institution is wholly owned by Liberty Financial Services – a one-bank holding company. Liberty's two assessment areas include portions of the St. Cloud, MN MSA and Minneapolis-St. Paul-Bloomington, MN-WI MSA. The St. Cloud assessment area includes the main office branch, two full service branches in St. Cloud, MN and another full service branch in Waite Park, MN. The Minneapolis-St. Paul-Bloomington, MN-WI MSA assessment area includes one branch

in Monticello, MN.

Liberty is primarily a residential mortgage lender. As of December 31, 2011, the loan portfolio totaled \$102 million, or 63 percent of total assets. Residential mortgages made up the majority of the loans representing 91 percent of total loans. The bank offers government-insured and uninsured conventional fixed rate residential mortgage loans for purchase or refinance. Conventional loans are typically sold to the secondary market, but Liberty retains the servicing rights. All government loans and their respective servicing rights are sold to the secondary market. Liberty also offers home loans under several special loan programs such as (1) the Minnesota Housing Finance Agency (MHFA) first time homebuyers program; (2) the St. Cloud/Stearns County Housing and Redevelopment Authority first time homebuyer program; and (3) the U.S. Department of Agriculture rural development loans.

Liberty received an "Outstanding" rating at its June 27, 2005 CRA evaluation. There are no legal, financial, or other factors that impede the bank's ability to serve the credit needs of its assessment areas. Other information about the institution is included in its Public File.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

Liberty considers its general service area to be the eastern half of Stearns County, all of Benton County, the western half of Sherburne County, and the northeastern portion of Wright County. This general service area is covered by the St. Cloud, MN MSA assessment area and the Minneapolis-St. Paul-Bloomington, MN-WI MSA assessment area.

### **St. Cloud, MN MSA Assessment Area**

The St. Cloud assessment area consists of the eastern half of Stearns County and all of Benton County. This assessment area is comprised of a total of 29 census tracts - 23 contiguous census tracts within Stearns County and six contiguous census tracts within Benton County. This area consists of four upper-income tracts, 21 middle-income tracts, three moderate-income tracts, and one low-income tract. It includes census tracts where the bank's branches are located as well as surrounding census tracts in which the bank can reasonably service. The assessment area meets the regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The following table shows demographic information for the St. Cloud assessment area:

<b>Demographic and Economic Characteristics of the St. Cloud AA</b>	
<i>Population</i>	
Number of Families	35,391
Number of Households	53,085
Number of Low-Income Families	5,380
% of Low-Income Families	15.20%
Number of Moderate-Income Families	6,645
% of Moderate-Income Families	18.78%
Number of Middle-Income Families	9,707
% of Middle-Income Families	27.43%
Number of Upper-Income Families	13,659
% of Upper-Income Families	38.59%
<i>Geographies</i>	
Number of Census Tracts	29
% Low-Income Census Tracts	3.45%
% Moderate-Income Census Tracts	10.34%
% Middle-Income Census Tracts	72.41%
% Upper-Income Census Tracts	13.79%
% N/A Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MSA MFI for AA	\$53,593
2000 HUD-2011 Updated MFI	\$66,800
<i>Economic Indicators</i>	
Median Housing Value	104,663
% of Households Below Poverty Level	8.88%

*Source: 2000 U.S. Census Data*

Unemployment levels in Stearns County are slightly lower than the statewide averages, while levels in Benton County are slightly higher than statewide averages. According to the U.S. Bureau of Labor Statistics, the December 31, 2011 unemployment rates for Stearns and Benton County were 5.6 percent and 6.4 percent, respectively. The state unemployment rate was 5.7 percent for this time period.

Economic activities in the St. Cloud assessment area are centered in government, education, health care, and retail services industries. St. Cloud is home to many large public service campuses including the VA Hospital, Stearns County government center, Saint Cloud State University, Saint Benedicts College, and Saint Johns University. In addition, the Centracare Health facilities employ over 6,000 citizens and recently completed the largest commercial construction project in the Upper Midwest. The aforementioned colleges and hospital significantly impact local economies.

Competition from other financial institutions is high. Liberty ranks eighth in deposit market share among the 35 financial institutions within all of Stearns and Benton Counties. The bank has \$110 million in deposits in the market for a deposit market

share of 2.98 percent. Community contacts stated that there are ample opportunities for participation by financial institutions especially as it relates to affordable housing.

**Minneapolis-St. Paul-Bloomington, MN-WI MSA Assessment Area**

The Minneapolis-St. Paul-Bloomington, MN-WI MSA assessment area consists of the western half of Sherburne County and northeastern portion of Wright County. This assessment area is comprised of a total of 10 census tracts - four contiguous census tracts within Sherburne County and six contiguous census tracts within Wright County. All of these tracts are middle-income census tracts. This assessment area includes the census tract where one branch is located as well as surrounding census tracts in which the bank can reasonably service. The assessment area meets the regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The following table shows demographic information for the census tracts included in the Minneapolis-St. Paul-Bloomington, MN-WI assessment area:

<b>Demographic and Economic Characteristics of the Minneapolis-St. Paul-Bloomington, MN-WI AA</b>	
<i>Population</i>	
Number of Families	16,553
Number of Households	21,400
Number of Low-Income Families	2,437
% of Low-Income Families	14.72%
Number of Moderate-Income Families	3,662
% of Moderate-Income Families	22.12%
Number of Middle-Income Families	5,328
% of Middle-Income Families	32.19%
Number of Upper-Income Families	5,126
% of Upper-Income Families	30.97%
<i>Geographies</i>	
Number of Census Tracts	10
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	100.00%
% Upper-Income Census Tracts	0.00%
% N/A Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MSA MFI for AA	\$62,571
2000 HUD-2011 Updated MFI	\$82,700
<i>Economic Indicators</i>	
Median Housing Value	134,788
% of Households Below Poverty Level	4.48%

Source: 2000 U.S. Census Data

Unemployment levels in Sherburne and Wright Counties are slightly higher than statewide averages. According to the U.S. Bureau of Labor Statistics, the December 31, 2011 unemployment rates for Sherburne and Wright County were 7.0 percent and 6.8 percent, respectively. This exceeds the state average of 5.7 percent for this same period.

Economic activities in the Minneapolis-St. Paul-Bloomington, MN-WI MSA assessment area and more specifically, Monticello, are centered primarily in health care and utilities. Based upon the 2011 Business Geodemographic Data, services comprised 43 percent of activity – this includes both of the aforementioned industries.

Competition from other financial institutions is very high. Liberty ranks 23 in deposit market share among 29 financial institutions within all of Sherburne and Wright County. The bank has deposits totaling \$21 million in this market for a deposit market share of 1.02 percent.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the Lending Test is Outstanding.

### Loan-to-Deposit Ratio

Liberty's net loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the assessment area. The bank's LTD ratio averaged 91.71 percent over the 27 quarters since the previous examination. This compares to similarly situated banks that have had quarterly average LTD ratios ranging from 78.92 percent to 92.00 percent over the same period. The comparable banks have a presence in Stearns, Benton, Sherburne, and Wright Counties and have total assets ranging from \$127 million to \$167 million. It should be noted that Liberty sells retail mortgages on the secondary market and these sales would not be reflected in the average LTD ratio.

<b>Bank Loan-to-Deposit Ratios</b>		
Institution	Assets (as of 12/31/11)	Average Loan-to-Deposit Ratio; 2Q05-4Q11
Plaza Park State Bank	\$167 million	92.00%
<b>Liberty Savings Bank</b>	<b>\$164 million</b>	<b>91.71%</b>
Falcon National Bank	\$127 million	87.74%
Sentry Bank	\$160 million	78.92%

Source: Call Report and Thrift Financial Report Data

### Lending in Assessment Area

Liberty originates a majority of its loans to borrowers inside its defined assessment areas. Based on the 2009 through 2011 HMDA LAR data, loans originated to individuals within the assessment areas totaled 79 percent by number and 77 percent by dollar volume. The following table shows the results of our analysis:

Lending in St. Cloud AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	3,571	78.6%	973	21.4%		\$570,398	76.8%	\$172,514	23.2%	\$742,912

Source: Data Reported under HMDA.

### Lending to Borrowers of Different Incomes

Liberty’s overall distribution of borrowers reflects excellent penetration among individuals of different income levels within the assessment areas.

#### St. Cloud Assessment Area

The distribution of borrowers in the St. Cloud assessment areas reflects excellent penetration among individuals of different income levels when compared to the assessment areas demographics. Residential real estate lending to low- and moderate-income families is excellent given that four percent of families within the assessment area are below poverty level. The following table compares the bank residential real estate lending activity to the demographics within the assessment area:

Borrower Distribution of Residential Real Estate Loans in St. Cloud AA								
Borrower Income Level*	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	15.2%	11.0%	18.8%	22.7%	27.4%	29.8%	38.6%	36.4%

Source: Data Reported under HMDA; 2000 Census data. (\*0.1% Income Not Available)

The distribution of borrowers also reflects excellent penetration among individuals of different income levels when compared to all HMDA reporting lenders (peer) in the assessment areas. The bank exceeds the peer comparator for loans originated to low- and moderate-income families. The following table compares the bank and peer residential real estate lending activity within the assessment area:

<b>Borrower Distribution of Residential Real Estate Loans in St. Cloud AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of HMDA Reporting Bank*	% of Number of Loans	% of HMDA Reporting Bank*	% of Number of Loans	% of HMDA Reporting Bank*	% of Number of Loans	% of HMDA Reporting Bank*	% of Number of Loans
Residential Real Estate Loans	10.6%	11.0%	21.9%	22.7%	25.6%	29.8%	32.0%	36.4%

Source: Data Reported under HMDA; 2010 HMDA Peer Reports. (\*9.9% Income Not Available)

Minneapolis-St. Paul-Bloomington, MN-WI Assessment Area

The distribution of borrowers reflects excellent penetration among individuals of different income levels. The bank exceeds the demographic comparator for loans originated to low- and moderate-income families within the assessment area. The following table compares the bank residential real estate lending activity to the demographics within the assessment area:

<b>Borrower Distribution of Residential Real Estate Loans in Minneapolis-St. Paul-Bloomington, MN-WI AA</b>								
Borrower Income Level	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	14.7%	15.4%	22.1%	25.2%	32.2%	32.3%	31.0%	27.1%

Source: Data Reported under HMDA; 2000 Census data.

The distribution of borrowers also reflects excellent penetration among individuals of different income levels when compared to all HMDA reporting lenders in the assessment areas. The bank meets or exceeds the peer comparator for loans originated to low- and moderate-income families. The following table compares the bank and peer residential real estate lending activity within the assessment area:

<b>Borrower Distribution of Residential Real Estate Loans in Minneapolis-St. Paul-Bloomington, MN-WI AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of HMDA Reporting Bank*	% of Number of Loans	% of HMDA Reporting Bank*	% of Number of Loans	% of HMDA Reporting Bank*	% of Number of Loans	% of HMDA Reporting Bank*	% of Number of Loans

Residential Real Estate Loans	15.2%	15.4%	25.2%	25.2%	23.3%	32.3%	21.5%	27.1%
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Source: Data Reported under HMDA; 2010 HMDA Peer Reports. (\*14.7% Income Not Available)

**Geographic Distribution of Loans**

Liberty’s distribution of loans reflects reasonable dispersion throughout the assessment areas. While we found that there is no loan penetration in the low-income census tract located in the St. Cloud assessment area, this is reasonable because the census tract consists primarily of businesses and the bank does not seek out commercial borrowers. Furthermore, the analyses showed that both the demographic and aggregate peer groups also had no loan penetration in this low-income census tract.

St. Cloud Assessment Area

The geographic distribution of residential real estate loans in the St. Cloud assessment areas reflects reasonable dispersion when compared to area demographic data. Lending in the low-income census tracts meets the demographic comparators for residential real estate loans. However, lending in the moderate-income census tracts falls slightly below the demographic comparators. The following table compares the bank residential real estate lending activity to the community demographics within the assessment area:

<b>Geographic Distribution of Residential Real Estate Loans in St. Cloud AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Residential Real Estate Loans	0.0%	0.0%	6.0%	4.4%	72.5%	58.7%	21.5%	36.9%

Source: Data Reported under HMDA; 2000 Census Data.

The geographic distribution of residential real estate loans reflects excellent dispersion throughout the assessment area when compared to all HMDA reporting lenders in the assessment areas. Lending in the low- and moderate-income census tracts meets the demographic comparators for residential real estate loans. The following table compares the bank and the peer residential real estate lending activity within the assessment area:

<b>Geographic Distribution of Residential Real Estate Loans in St. Cloud AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of HMDA Reporting Bank	% of Number of Loans	% of HMDA Reporting Bank	% of Number of Loans	% of HMDA Reporting Bank	% of Number of Loans	% of HMDA Reporting Bank	% of Number of Loans

Residential Real Estate Loans	0.1%	0.0%	4.2%	4.4%	64.2%	58.7%	31.5%	36.9%
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*Source: Data Reported under HMDA; 2010 HMDA Peer Reports.*

**Minneapolis-St. Paul-Bloomington, MN-WI Assessment Area**

The analysis of the geographic distribution of loans is not meaningful for this assessment area as all census tracts are middle-income.

**Community Development Services**

Liberty’s community development services enhance credit availability in the assessment areas and contribute to the overall rating.

Bank personnel attend community meetings, provide technical assistance to community groups, promote financial education, and serve on the boards of non-profit and governmental advisory groups to ascertain community needs.

Officers of Liberty serve as board members, committee members, and volunteers for several non-profit organizations, such as Habitat for Humanity and the St. Cloud Housing and Redevelopment Authority (HRA), and provide financial expertise and resources in this capacity.

Liberty has been involved in developing loan products to serve the two largest affordable housing initiatives in the area – the Westwood Village Project and Lifecycle Housing Initiative. The Westwood Village Project provides single family housing and town homes for purchase to low- and moderate-income borrowers. The Lifecycle Housing Initiative also provides affordable homes and financing to low- and moderate-income individuals and families. Upon resale, the homes are again sold at reduced prices to buyers that qualify under this program. Liberty also serves as the Lender Advisory Board to this particular initiative. In addition to these initiatives, Liberty works with borrowers through the Minnesota Housing Finance Agency to help them obtain down payment assistance needed to buy their first home. Finally, Liberty provides rehabilitation loans offered by the St. Cloud HRA. These loan products target specific areas in the city and provide low rate rehabilitation loans for necessary improvements. The bank also works with the St. Cloud HRA to provide down payment assistance for borrowers below the median income. All of these initiatives have been ongoing for several years.

Officers of Liberty regularly provide financial expertise and resources to the Westwood Elementary School in St. Cloud. In particular, officers from the Westwood St. Cloud Branch location teach financial management classes to the elementary students, which include students from low- to moderate-income families.

Liberty also offers full banking services from all branch locations as well as an expanded ATM network, free mortgage pre-approvals, no cost direct deposit, no cost 24-hour telephone banking, on-line banking, and bill pay services. These alternative delivery channels offer expanded access to low- to moderate-income individuals and

communities.

### **Responses to Complaints**

Liberty has not received any CRA complaints during this evaluation period.

### **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.