



PUBLIC DISCLOSURE

January 25, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lake City Federal Bank
Charter Number 702828

201 East Marion Street
Lake City, MN 55041-1000

Office of the Comptroller of the Currency

Campbell Mithun Tower
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 Outstanding

The major factors supporting this rating include:

- The distribution of loans to borrowers of different income levels reflects excellent penetration within the bank's assessment area (AA).
- The geographic distribution of loans reflects reasonable dispersion to geographies of different income levels with the bank's AA.
- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size and the credit needs of the AA.
- The bank originates a substantial majority of loans to customers inside the AA.

SCOPE OF EXAMINATION

We evaluated Lake City Federal Bank's (LCFB) Community Reinvestment Act (CRA) performance from July 1, 2009, to December 31, 2015. During the last CRA examination, the bank was under the supervision of the Office of Thrift Supervision (OTS). The OTS subsequently merged with the Office of the Comptroller of the Currency (OCC) in July 2011. We assessed the bank's lending performance using primary products based on the number and dollar volume of loans originated between January 1, 2014, and December 31, 2015. The analysis found that consumer loans are a primary product based on the number of loan originations at 54 percent, and residential real estate loans are a primary product based on the dollar volume of loan originations at 34 percent. We selected a sample of 20 consumer loans and 20 residential real estate loans in order to evaluate lending activities within the AA. The following table shows the bank's primary products by loan originations and purchases.

Loan Originations and Purchases in 2014 and 2015		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	54.05%	13.60%
Commercial	17.34%	29.17%
Residential Real Estate	13.87%	34.10%
Agriculture	14.74%	23.13%

Source: Bank loan origination report for 2014-2015

DESCRIPTION OF INSTITUTION

LCFB is a \$69 million federally-chartered mutual thrift headquartered in Lake City, Minnesota. LCFB operates one branch in Lake City. The community of Lake City is located in Wabasha and Goodhue Counties in the southeastern part of the state along the Mississippi River. The bank has one ATM, which is located at the branch. The bank's ATM does not accept deposit transactions.

LCFB primarily offers traditional banking products and services. Retail loan products include single-family mortgage loans for purchase and refinance, open- and closed-end home equity products, construction loans, and consumer loans for a variety of purposes. Non-retail products

include commercial, multi-family, and farm real estate loans, as well as commercial construction and business loans.

Based on the September 30, 2015, call report, total loans represented 74 percent of the bank's \$69 million total assets. At that time, the bank's loan portfolio was comprised of 57 percent residential real estate loans, 23 percent agricultural loans, 13 percent commercial loans, and 7 percent consumer loans. The bank's investment portfolio equaled 12 percent of total assets as of that same date.

LCFB received an "Outstanding" rating on its last CRA examination dated October 29, 2009. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its AA.

DESCRIPTION OF ASSESSMENT AREA (AA)

LCFB considers its general lending area to be all of Wabasha County and a portion of Goodhue County. Wabasha County is located in the Rochester Metropolitan Statistical Area (MSA), while Goodhue County is located in a non-MSA. The Wabasha/Goodhue County line and the MSA boundary are located within Lake City, on the northern part of the town. Due to this, the bank's AA includes one census tract from the non-MSA County of Goodhue. This performance evaluation will use demographic comparators from the MSA County of Wabasha, as that is where the bank is located. Demographics from the non-MSA County of Goodhue would not provide a meaningful analysis considering only a small portion of the bank's AA is located in that county.

The bank's AA consists of seven contiguous census tracts located in Wabasha and Goodhue Counties. This area consists of four middle-income level tracts, two moderate-income level tracts, and one upper-income level tract. It includes the census tract where the bank branch and ATM are located, as well as surrounding census tracts in which the bank lends substantially and can reasonably serve. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The following table shows the demographic and economic characteristics of the Wabasha County AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA (Wabasha County only)	
Population	
Number of Families	6,061
Number of Households	8,799
% of Low-Income Families	21.94%
% of Moderate-Income Families	24.95%
% of Middle-Income Families	22.92%
% of Upper-Income Families	30.19%
Geographies	
Number of Census Tracts	6
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	33.33%
% Middle-Income Census Tracts	67.67%
% Upper-Income Census Tracts	0%
Median Family Income (MFI)	
2010 MFI for AA	\$74,450
2015 HUD-Adjusted MFI	\$81,700
Economic Indicators	
2015 Unemployment Rate	3.7%
2014 Unemployment Rate	3.9%
2013 Unemployment Rate	4.3%
2010 Median Housing Value	\$164,485
% of Households Below Poverty Level	7.5%

Source: 2010 U.S. Census data with updated information when available

According to 2010 U.S. Census data, the Wabasha County AA has a population of 21,676, and the one census tract located in Goodhue County has an additional population of 3,998. Total population of the bank’s AA is 25,674. According to the Bureau of Labor Statistics, the average unemployment rate for Wabasha County was 3.9 percent in 2014, and 3.7 percent through November of 2015. This is similar to Minnesota’s 2015 average unemployment rate of 3.5 percent and lower than the nationwide average of 4.9 percent. The number of households in the AA below the poverty level is moderate at 7.5 percent, according to 2010 U.S. Census information.

The local economy is dependent on retail services, tourism, and agriculture. The area experiences a significant amount of seasonal tourism, as the community of Lake City is located on the western shore of Lake Pepin and the Mississippi River. Major local employers include the Mayo Clinic Health System (Hospital/Clinic), Hearth and Home (Fireplace manufacturer), Federal Mogul (Heavy equipment piston production), and Valley Craft (Office furniture manufacturer).

Banking competition in the AA is moderate. There is one state chartered institution and one credit union located in Lake City. LCFB is the only nationally chartered institution in town; however, there are numerous other banks with a presence in the bank’s AA. According to the June 30, 2015, FDIC Deposit Market Share Report, there are 19 other national or state chartered deposit taking financial institutions with a presence in Wabasha and Goodhue

Counties. LCFB ranks twelfth with a 3.6 percent market share. Based on the deposit data, no one institution dominates the banking market area. First Farmers and Merchants Bank holds the highest market share with 11.5 percent of deposits.

We contacted a local community leader to better understand the credit needs of the bank's AA. The community leader indicated that local institutions were actively meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

LCFB's LTD ratio is more than reasonable given the bank's size, financial condition, and the local credit needs. The bank's quarterly LTD ratio averaged 94 percent since January 1, 2012. This was the most reliable evaluation period for comparison since LCFB came under OCC supervision. The bank's LTD ratio ranks second among similarly situated banks. Similarly situated banks have a presence in the AA and asset sizes between \$68 million and \$600 million. These banks had LTD ratios ranging from 35 percent to 104 percent during the evaluation period.

Loan-to-deposit Ratio Institution (Headquarters)	Assets as of 9/30/15 (\$000s)	Average LTD Ratio (%)
Foresight Bank	\$185,294	104.31%
Lake City Federal Bank	\$68,948	94.16%
Alliance Bank	\$599,529	90.56%
Peoples State Bank of Plainview	\$199,028	74.42%
First State Bank of Wabasha	\$128,848	35.24%

Source: Call Report data as of September 30, 2015.

Lending in Assessment Area

The bank originates a substantial majority of its loans within the AA. Based on a sample of primary products, LCFB originated 92.50 percent of loans by number and 91.60 percent of loans by dollar volume within the bank's AA. The following table illustrates the number and dollar amount of sampled loans originated inside and outside the bank's AA during the evaluation period.

Lending in LCFB's AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	18	90.00	2	10.00	20	2,810	92.34	233	7.66	\$3,043
Consumer	19	95.00	1	5.00	20	141	78.96	37	21.04	\$178
Totals	37	92.50	3	7.50	40	2,951	91.60	270	8.40	\$3,221

Source: 2013 and 2014 Home mortgage and consumer loan samples.

Lending to Borrowers of Different Incomes

LCFB's lending to borrowers of different incomes reflects excellent penetration in the AA.

Borrower Distribution of Loans in the AA

Consumer Loans

The distribution of consumer loans reflects excellent penetration among borrowers of different income levels given the demographics of the AA. The bank's lending to low-income individuals significantly exceeds the demographic comparator of low-income households in the AA. The bank's lending to moderate-income individuals exceeds the demographic comparator of moderate-income households in the AA. The table below shows the bank's lending performance compared to the demographics of the AA.

Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	28.13%	50.00%	18.81%	20.00%	20.68%	20.00%	32.38%	10.00%

Source: Loan Sample; 2010 US Census Data

Note: The table above is based only on demographic data from the bank's AA located in the MSA (Wabasha County).

Residential Real Estate Loans

The distribution of residential real estate loans reflects excellent penetration among borrowers of different income levels and compared to the performance of aggregate lenders within the AA. The bank's lending to low-income individuals meets the performance of aggregate lenders and the percentage of low-income families in the AA. The bank's lending to moderate-income individuals exceeds both the aggregate lender performance and percentage of moderate-income families in the AA. The table below shows the bank's lending performance based on our loan sample compared to the demographics of the AA.

Borrower Distribution of Residential Real Estate Loans in the AA			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	20.00%	18.09%	21.94%
Moderate	30.00%	26.60%	24.95%
Middle	25.00%	19.60%	22.92%
Upper	25.00%	26.84%	30.19%

Source: Loan Sample Data; 2013 Aggregate Lending Data; 2010 US Census Data

Note: 8.87% of aggregate lenders income data was not available. The table above is based only on demographic data from the bank’s AA located in the MSA (Wabasha County).

Geographic Distribution of Loans in the AA

LCFB’s overall geographic distribution of loans reflects reasonable dispersion throughout different income-level census tracts.

Consumer Loans

The geographic distribution of consumer loans reflects excellent dispersion throughout different income-level census tracts. LCFB’s lending performance exceeds the demographic comparator in lending to moderate-income census tracts. The following table illustrates the bank’s geographic distribution of sampled consumer loans during the evaluation period compared to demographic data in the bank’s AA.

Geographic Distribution of Consumer Loans in AA								
Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	0.00%	0.00%	35.09%	50.00%	64.91%	35.00%	0%	15.00%

Source: Loan Sample; 2010 US Census Data

Note: The table above is based only on demographic data from the bank’s AA located in the MSA (Wabasha County).

Residential Real Estate Loans

The geographic distribution of residential real estate loans in LCFB’s AA reflects reasonable dispersion when compared to the AA’s demographic data. Lending in moderate-income census tracts exceeds the demographic comparator for owner occupied housing. Lending is below the performance of aggregate lenders. The following table illustrates the bank’s geographic distribution of residential loans during the evaluation period and demographic data of the bank’s AA.

Geographic Distribution of Residential Real Estate Loans in the AA			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	35.00%	51.58%	33.27%
Middle	40.00%	48.42%	66.73%
Upper	25.00%	0.00%	0.00%

Source: Loan Sample; 2013 Aggregate Lending Data; 2010 US Census Data

Note: The table above is based only on demographic data from the bank's AA located in the MSA (Wabasha County).

Responses to Complaints

LCFB received no CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.