

PUBLIC DISCLOSURE

February 22, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Lakewood Bank, National Association
Charter Number: 15214**

**1100 Highway 210 West
Baxter, Minnesota**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CAR) performance of **Lakewood Bank, National Association, Baxter, Minnesota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 22, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CAR RATING: This institution is rated **Satisfactory**. The following factors highlight the bank's performance.

- C The bank has a very good record of extending consumer auto loans to low- and moderate-income borrowers.
- C The bank's loan-to-deposit ratio is reasonable and comparable to other banks of similar size located in the assessment area.
- C The level of loans originated within the bank's assessment area is good.

DESCRIPTION OF INSTITUTION

Lakewood Bank, National Association (LB) is a \$63 million institution located in north central Minnesota. Loan volume represents 63% of the bank's assets. The bank's main location is in Baxter on Highway 210 West, with additional locations in downtown Nisswa, Super One Foods in Baxter, Schaeffer's Foods in Nisswa, and Reed's Country Market in Crosslake. They also have five automatic teller machines, two each in Nisswa and Baxter and one in Crosslake.

The bank was formerly called Brainerd National Bank, Baxter, Minnesota. During January 1997, the bank was purchased by Valley Bancshares, Inc., Nisswa, Minnesota. At that time, the Holding Company also owned state banks in Mapleton, Iowa and Nisswa, Minnesota. During December 1998, the Nisswa and Baxter banks were merged under the national bank charter and renamed Lakewood Bank, National Association. As of year-end 1998, total assets of the Holding Company were \$123 million.

LB is a full service bank offering traditional loan deposit products and services. The lending focuses on residential real estate, consumer, and business loans. The bank also offers residential real estate loans for the secondary market and participates in Minnesota Housing Finance Agency loan programs. The following table reflects the bank's loan mix.

Loan Type	Dollar Volume (000's)	% of Total
Residential Real Estate	\$17,775	45%
Commercial Real Estate	\$7,910	20%
Commercial	\$8,775	22%
Consumer and Other Loans	\$5,154	13%
Total Portfolio	\$39,614	100%

* Source: Bank Report of Condition as of 12/31/98.

There are no legal or financial factors impeding the bank's ability to help meet the credit needs of the communities it serves. During the prior CRA examination, the bank was rated Satisfactory. Since the 1995 examination, the bank has opened a branch at the Super One store in Baxter and merged the Nisswa State Bank into this bank.

DESCRIPTION OF LAKEWOOD BANK'S ASSESSMENT AREA

The assessment area (AA) of LB consists of 15 contiguous block numbering areas (BNAs) located in Cass and Crow Wing Counties in north central Minnesota. Two of the BNAs are moderate-income, one upper-income, and the remaining tracts middle-income. The primary cities in the AA are Brainerd, Baxter, Nisswa, Pequot Lakes, and Crosslake. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

The population of the AA is 41,304. The unemployment rate is 3% with 13% of the total population living below the poverty level. Major employers include school systems, Minnesota Department of Transportation, Minnesota Department of Natural Resources, Arvig Telephone Communications, health care services, grocery stores, and retail stores. The local economy is strong. The area is very reliant on tourism and retail trade.

The 1998 updated median family income for the AA is \$40,500. The profile of family income levels within the BNA is: low income 21%, moderate income 19%, middle income 23%, and upper income 37%. Owner-occupied units account for 45% of total housing units with a median housing value of \$62,436.

LB's primary competition includes eight similarly sized banks and bank branches located within its AA and regional and mid-size banks located in the Brainerd/Baxter area.

Credit needs of the AA are varied. They include all types of loans for small businesses, including commercial real estate, working capital, and asset purchases. Residential housing needs include purchases, refinances, second mortgages, and equity loans. The bank extends a variety of consumer loans.

We determined the credit needs of the AA by discussions with bank management and contacting a local economic development agency and municipal government elected official. Both contacts were very positive on the financial institutions in the area and feel they are meeting the needs of the communities they serve.

DESCRIPTION OF LOANS SAMPLED

Our review of LB's lending activities was conducted through sampling various bank loan products. The sample focused on the bank's primary lending activities including residential real estate, consumer, and small businesses. The sample was derived from all loan originations, including the recently merged state bank, since the last CRA examination. The information is from bank prepared reports made available during our examination. We sampled the reports and found them to be accurate. The table below depicts our sample size.

	Residential Real Estate		Consumer Auto	Commercial
	Sold on Secondary Market*	In-bank	In-bank	In-bank
Sample Size	5	15	20	20
Dollar Amount of Sample	\$471	\$896	\$233	\$2,892
Dollar Amount of Loans Originated	\$10,054	\$10,757	\$4,131	\$6,466
Number Loans Originated	96	227	385	161

Dollar volume is in 000's.

* The sample of residential real estate loans sold on the secondary market was only for 1998. The bank did not maintain records prior to then.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes in the Assessment Area

LB has a reasonable distribution of loans to borrowers of different incomes and businesses of different sizes within its AA.

Consumer Auto Loans

The bank has a very good record of lending to consumer borrowers in the low- and moderate-income levels. Our review focused on consumer automobile loans; the following table illustrates lending to borrowers of different income levels. The sample included 20 loans totaling \$233,000.

Income Level	% Families in the AA (1990 Census Data)	% Number of Loans Sampled	% Dollar Volume Loans Sampled
Low-Income < 50% Median Family income*	21%	40%	16%
Moderate-Income at least 50% < 80% Median Family Income*	19%	15%	22%
Middle-Income at least 80% < 120% Median Family Income*	23%	15%	7%
Upper-Income 120% and > Median Family Income*	37%	20%	40%
Loan files with insufficient income information	NA	10%	15%

* 1998 Outstate Median Family Income \$40,500

Residential Real Estate Loans

The bank's distribution of residential real estate loans to borrowers of different income levels is acceptable. Lakewood's record of real estate lending to all income level borrowers is below the demographics of the AA. This is mitigated by increasing housing prices, and the level of households that are below the poverty level impedes the borrower's ability to qualify for conventional housing loans. Owner occupied housing accounts for 45% of the total housing units in the AA.

The table on the next page illustrates residential real estate lending activities for both loans maintained in-bank and loans sold on the secondary market. Our sample included 20 loans totaling \$1,367,000.

Income Level	% Families in the AA (1990 Census Data)	% Number of Loans Sampled	% Dollar Volume Loans Sampled
Low-Income < 50% Median Family income*	21%	10%	7%
Moderate-Income least 50% < 80% Median Family Income*	19%	20%	21%
Middle-Income at least 80% < 120% Median Family Income*	23%	20%	14%
Upper-Income 120% and > Median Family Income*	37%	45%	54%
Loan files with insufficient income information	NA	5%	4%

* 1998 Outstate Median Family Income \$40,500

Business Loans

LB does an acceptable job of lending to businesses of all revenue sizes. The following table illustrates loans to various size businesses within the bank's AA. The thriving economy accounts for many of the loans in the higher revenue bracket. Our sample included 20 loans totaling \$2,892,000.

Annual Gross Sales (000's)	% Number of Loans Sampled	% Dollar Volume Sampled
\$100 or less	25%	27%
\$101 - \$250	15%	5%
\$251 - \$1,000	20%	2%
> \$1,000	40%	65%

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size and financial condition. The bank's current LTD ratio is 74% with a quarterly average of 60% since the last CRA examination. The bank's ratio is comparable to other banks within the AA; the competing banks' average ratios range from 41% to 103%. The bank's ratio ranks eighth out of nine banks.

The ratio has increased significantly since the change in bank ownership, from 46% to 74%. In addition, if you would factor the \$10 million of real estate loans sold on the secondary market, the adjusted LTD ratio would be 93%.

Lending in the Assessment Area

A majority of the bank's loan originations are extended within the designated AA. We conducted an analysis of the 60 loans included in our consumer, real estate and business sample. The following table reflects the distribution of our sample:

	Residential Real Estate	Consumer Auto	Commercial
Number of Loans Sampled	20	20	20
Percentage in the AA	90%	85%	95%
Dollar Volume of Loans Sampled	\$1,448	\$237	\$2,892
Percentage in the AA	91%	92%	93%

Geographic Distribution of Loans

The geographic distribution of loans within the bank's AA is reasonable. A majority of the bank's loans originated in the Nisswa and Brainerd/Baxter area. The bank's AA has no low-income BNAs and two BNAs that are considered moderate-income. We determined distribution of loans within AA two ways. We utilized the sample of loans described earlier and performed a zip code analysis of all loans originated since the prior CRA examination.

Based on our loan sample of 60 credits, 3% of the number of credits and 2% of the dollar volume of credits reviewed are located in the moderate-income BNA's (BNAs 9502 and 9501).

Since this appeared low and the bank does not track loans by BNA, we also conducted a zip code analysis of loan distribution. This analysis also reflected that loans extended in the two moderate-income areas represents 2% of the number and dollar volume of loan originations since the prior CRA examination. However, this type of analysis is not entirely valid since there is no way to account for overlapping zip code coverage from cities located next to the two moderate-income BNAs.

Despite the lower percentages, the low lending activity can be mitigated. The two moderate-income BNAs represent approximately one-third of the total area of AA, yet account for only 7% of the population. Combined population of the three cities within the BNA's is less than 1,000 people. The sparse population is due to a large portion of the land consisting of lakes and wooded areas. In addition, the two BNA's are on the northern fringe of the bank's lending area and has strong competition from banks located just outside the AA.

Record of Response to Complaints

The bank has not received any CRA-related complaints since the previous evaluation.

Record of Compliance with Anti-discriminatory laws

Based on our review of fair lending regulations, the bank is complying with anti-discriminatory laws. We found no substantive violations of the fair lending laws.