



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

September 4, 2003

Community Reinvestment Act Performance Evaluation

**Lakewood Bank, N.A.
Charter Number 15214**

**1411 County Road 18
Nisswa, MN 56468**

**Comptroller of the Currency
ADC-North Dakota & NW Minnesota
3211 Fiechtner Drive, SW
Fargo, ND 58103**

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.

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INSTITUTION'S CRA RATING:

Lakewood Bank, N.A. is rated Satisfactory.

- The bank's Loan to Deposit (LTD) ratio exceeds the standard for satisfactory performance. The LTD ratio is high given the bank's size, financial condition and lending opportunities within its Assessment Area (AA). The LTD is above some of the other area institutions.
- The bank's lending within the AA exceeds the standard for satisfactory performance. A substantial majority of its loans are made within the AA.
- The bank's borrower distribution of loans throughout the AA meets the standard for satisfactory performance.
- The bank's geographic distribution of business and residential real estate loans throughout the AA adequately meets the standard for satisfactory performance.

DESCRIPTION OF INSTITUTION

Lakewood Bank N.A. (Lakewood) is a \$67 million bank in Nisswa, Minnesota. The bank is owned 100% by Valley Bancshares, Inc., a two-bank holding company. The bank is located in north central Minnesota and has four branches, located in Cross Lake, Brainerd, and two local supermarkets. The bank owns four automatic teller machines (ATMs) located at the main bank location and the branch offices.

The bank offers a wide variety of loan and deposit products and services. Using December 31, 2002 financial data, gross loans represent 70% of total assets. The primary lending focus is in 1-4 family residential real estate and commercial loans, including commercial real estate. The following table depicts the loan portfolio composition:

Loan Portfolio Composition 12/02	\$ (000)	%
Residential Real Estate	21,767	47.71
Commercial Loans and Real Estate	21,244	46.56
Consumer Loans	2,613	5.73
Total	45,624	100.00

The last CRA examination was March 15, 1999 and the bank was rated "Satisfactory". There are no legal or financial impediments limiting the bank's ability to help meet community credit needs.

DESCRIPTION OF LAKEWOOD'S ASSESSMENT AREA

The bank's assessment area (AA) includes Crow Wing county and a small portion of Cass county in north central Minnesota. The AA is not located within a metropolitan statistical area (MSA). According to the 1990 census, the population of the AA is approximately 21,500 people. The AA includes 15 block numbering areas (BNAs); 2 designated as moderate-income, 12 designated as middle-income, and 1 designated upper-income. The AA contains no low-income BNAs.

The AA includes only whole BNAs that are contiguous. The AA meets the requirements of the regulation. Low- or moderate-income geographies are not arbitrarily excluded from the AA. Larger cities included in the AA are limited to Brainerd/Baxter communities.

The bank's AA is dependent on business operations. Employment opportunities include retail trade, service industry, and small manufacturing. The number of households living below the poverty level is high, at 15.4% of total households. The statewide median income for 2002 is \$48,500.

The bank's competitors include five community banks located within Nisswa and Baxter/Brainerd communities. Other competition includes several community banks operating in, or bordering Lakewood's AA.

During the CRA exam, we attempted to make community contacts to determine the bank's involvement in providing available credit in the local community. We were unable to make contact with new or former contacts. We reviewed previous community contact information and determined sample data obtained in our review showed no significant deviation from the information provided by the previous contacts.

The demographics of the AA are illustrated in the table on the following page. The information is based on the 1990 census data unless otherwise noted.

Demographic and Economic Characteristics of AA	
<i>Population</i>	
Number of Families	11,506
Number of Households	15,924
Number of Low-Income Families	2,445
% of Low-Income Families	21.20%
Number of Moderate-Income Families	2,169
% of Moderate-Income Families	18.90%
Number of Middle-Income Families	2,655
% of Middle-Income Families	23.10%
Number of Upper-Income Families	4,237
% of Upper-Income Families	36.80%
<i>Geographies</i>	
Number of Census Tracts/BNA	15
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	13.3%
% Middle-Income Census Tracts/BNA	80.0%
% Upper-Income Census Tracts/BNA	6.7%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$28,238
2002 HUD-Adjusted MFI	\$48,500
<i>Economic Indicators</i>	
Unemployment Rate Cass/Crow Wing counties	6.5%/5.3%
2002 Median Housing Value	\$62,436
% of Households Below Poverty Level	15%

LOAN SAMPLING

The bank's primary loan types were determined through reviewing all loans originated and purchased during the time period from January 1, 2001 to December 31, 2002. The following table depicts the volume of loans originated and purchased:

Loan Products	#	%	\$ (000)	%
Consumer Loans	703	47%	2,345	5%
Business Loans	164	11%	10,317	22%
Residential Real Estate Loans	629	42%	35,131	73%
Total	1,496	100%	47,793	100%

For the purpose of this evaluation, the primary loan types are business loans, residential real estate loans, and consumer loans. Business loans account for 22% of the volume of loans and 11% of the loans originated. Residential real estate loans account for 73% of the volume of loans and 42% of the loans originated. Consumer loans account for 5% of the volume of loans and 47% of the loans originated. Agricultural loans were not selected due to the nominal

number of loans originated and small dollar volume.

To complete our analysis, we selected a sample of 20 business, 20 residential real estate, and 20 consumer loans with balances as of December 31, 2002. Statistically valid sampling techniques were used to select the sample. After initial sampling to determine the bank's lending within the AA, additional files were selected so that all loans in the sample were made within Lakewood's AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The bank's LTD ratio exceeds the standard for satisfactory performance. The LTD ratio is high given the bank's size, financial condition and lending opportunities within its AA. The quarterly LTD ratio averaged 84.52% in the 17 quarters since March 15, 1999. During this period, the LTD ratio increased steadily from 72.95% on March 30, 1999 to 84.52% on June 30, 2003. The following graph shows Lakewood in comparison with other financial institutions in the local area:

Institution	Assets as of 6/30/03 (\$)	Average LTD Ratio (%)
Northern National Bank	88,299	103.02
Woodland Bank	71,688	90.14
Lakewood Bank, N.A.	69,758	84.52
Lakes State Bank	68,407	78.70
Pine River State Bank	71,845	66.02
First National Bank of Crosby	46,310	59.06

LENDING IN ASSESSMENT AREA

The bank's lending within its AA exceeds the standard for satisfactory performance. A substantial majority of the bank's loans are originated within its AA. The table below demonstrates the bank's commitment to lending within their AA:

Lending in Lakewood's AA										
	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
Total	52	87%	8	13%	60	2,659	86%	437	14%	3,096

Dollar volume in 000s.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

Lending to borrowers of different incomes meets the standard for satisfactory performance.

Business Loans

Lakewood’s lending to businesses of different sizes is satisfactory. Lending to businesses with revenues under \$1 million meets the demographics of the AA. The following table illustrates Lakewood’s lending to businesses of different sizes:

Borrower Distribution of Loans to Businesses in Lakewood’s AA		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	72.3%	4.8%
% of Bank Loans in AA #	90%	10%
% of Bank Loans in AA \$	81%	19%

*22.9% of businesses did not report revenue.

Residential Real Estate Loans

Lakewood’s residential real estate lending to borrowers of different income levels is marginally satisfactory when considering performance context issues of the AA. The bank’s levels of residential real estate lending to low-income borrowers is below AA demographics. The same is true for moderate-income borrowers. Housing prices continue to increase making it difficult for low- and moderate-income borrowers to qualify for the purchase of these homes. The following table depicts Lakewood’s residential real estate lending compared to the demographics within the AA:

Borrower Distribution of Residential Real Estate Loans in Lakewood’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
	21.2%	9%	18.9%	4%	23.1%	35%	36.8%	52%

Consumer Loans

Consumer lending to low- and moderate-income borrowers meets the standard for satisfactory performance. The percentage of loans to low-income borrowers reasonably meets the demographic needs of the area. The following table portrays Lakewood’s consumer lending compared to the demographics within the AA:

Borrower Distribution of Consumer Loans in Lakewood’s AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	24.7%	10%	16.6%	19%	19.3%	24%	39.5%	48%

GEOGRAPHIC DISTRIBUTION OF LOANS

Business Loans

The geographic distribution of business loans is good. The percentage by number of business loans in all income levels closely matches the businesses within that geography. The following table depicts the bank’s performance:

Geographic Distribution of Loans to Businesses in Lakewood’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
	0%	0%	5.1%	5%	77.9%	80%	17.0%	15%

Residential Real Estate Loans

The geographic distribution of residential real estate loans is satisfactory. Low-income and moderate-income housing cumulatively meet the portion of real estate within the AA. The following table depicts the bank’s performance:

Geographic Distribution of Residential Real Estate Loans in Lakewood’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
	0%	0%	8.8%	5%	78.3%	85%	12.9%	10%

Consumer Loans

The geographic distribution of consumer loans does not meet the standard for satisfactory. Both the low- and moderate-income tracts maintain zero percent of AA households. A sample of credits used in the penetration testing did not catch any low- or moderate-income tracts due to the relatively low amount of households available in the AA. The portion of consumer loans made in the middle-income geography is higher than the portion of households located in that geography. The following table illustrates the bank’s performance:

Geographic Distribution of Consumer Loans in Lakewood’s AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	0%	0%	7.4%	0%	77.9%	90%	14.7%	10%

RESPONSES TO COMPLAINTS

Lakewood’s response to complaints meets the standard for satisfactory performance. Lakewood received two complaints about its performance in helping to meet AA credit needs during this evaluation period. The complaints are not significant in nature.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The analysis of Year 2001 and Year 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.