



**LARGE BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **Public Disclosure**

June 17, 2002

### **Community Reinvestment Act Performance Evaluation**

**Alerus Financial, National Association  
Charter Number: 13790**

**401 Demers Avenue  
Grand Forks, ND 58201**

**Office of the Comptroller of the Currency**

**North Dakota and Northwest Minnesota  
1309 Highway North  
Alexandria, MN 56308**

**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, and should not 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.**

## Table of Contents

<b><u>OVERALL CRA RATING</u></b> .....	<b>2</b>
<b><u>DEFINITIONS AND COMMON ABBREVIATIONS</u></b> .....	<b>3</b>
<b><u>DESCRIPTION OF INSTITUTION</u></b> .....	<b>6</b>
<b><u>SCOPE OF THE EVALUATION</u></b> .....	<b>7</b>
<b><u>FAIR LENDING REVIEW</u></b> .....	<b>9</b>
<b><u>CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS</u></b> .....	<b>10</b>
<u>LENDING TEST</u> .....	10
<u>INVESTMENT TEST</u> .....	18
<u>SERVICE TEST</u> .....	19
<b><u>APPENDIX A: SCOPE OF EXAMINATION</u></b> .....	<b>A-1</b>
<b><u>APPENDIX B: MARKET PROFILES FOR FULL-SCOPE AREAS</u></b> .....	<b>B-1</b>
<b><u>APPENDIX C: TABLES OF PERFORMANCE DATA</u></b> .....	<b>C-1</b>

## Overall CRA Rating

**Institution's CRA Rating:** This institution is rated **Satisfactory**.

The following table indicates the performance level of **Alerus Financial, National Association** with respect to the Lending, Investment, and Service Tests:

Performance Levels	(Name of Depository Institution) Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X	X	X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

\* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- Alerus' responsiveness to community credit needs is good to excellent in each assessment area. A substantial majority of the bank's loans (88%) are inside its assessment areas.
- The geographic distribution of loans is adequate to good in each assessment area.
- Alerus' delivery systems are readily accessible to geographies and individuals of different income levels. Bank personnel provide a good level of community development services in each assessment area.
- Alerus provided an adequate to good level of qualified investments in its assessment areas.
- The distribution of loans to borrowers of different income, and to businesses/farms of different sizes is adequate in each assessment area.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Block Numbering Area (BNA):** A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also

include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male household and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home Mortgage Loans:** such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes loans for multifamily (five or more families) dwellings, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any primary metropolitan area (PMA), metropolitan area (MA), or consolidated metropolitan area (CMA), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## Description of Institution

Alerus Financial, National Association (Alerus) is a \$423 million bank with its headquarters in Grand Forks, North Dakota. Alerus is an intrastate bank with all of its branches located in North Dakota.

Alerus operates in two assessment areas (AAs), the Grand Forks, North Dakota/East Grand Forks, Minnesota MA and the Fargo, North Dakota/Moorhead, Minnesota MA. Alerus has ten branches, five in each AA.

Alerus is wholly owned by Alerus Financial Corporation (AFC) also located in Grand Forks, North Dakota. AFC has total assets of \$427 million as of December 31, 2001, most of AFC's assets consist of Alerus.

Alerus has one affiliated company, Alerus Appraisal Corporation. Alerus has two operating subsidiaries; Alerus Securities Corporation, which provides brokerage and investment services to bank customers and Alerus Financial Insurance Services which provides insurance products and services. Activities and financial performance of affiliate and subsidiary companies were reviewed and had minimal impact on Alerus' CRA performance during this evaluation period.

Alerus offers a variety of financial services including; commercial and retail banking, estate planning, trust, and property management. Combined with its subsidiaries and affiliates, Alerus focuses on providing a wide array of financial products and services to each of its customers.

As of December 31, 2001, net loans and leases represent 71.5% of total assets and 81% of total deposits. The loan mix is comprised of \$176 million in commercial and commercial real estate loans (58%), \$44.7 million in residential real estate (14%), \$44.3 million in consumer loans (14%), and \$42.3 million in agriculture loans (14%). Tier 1 capital totals \$49.6 million with a Tier 1 capital ratio of 11.2%.

Alerus' CRA performance was rated "Outstanding Record of Meeting Community Credit Needs" at its last CRA evaluation dated April 5, 1999.

There are no financial, legal, or other factors which impede the bank's ability to meet its CRA obligations.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

With the exception of community development (CD) loans, the evaluation period of the Lending Test is January 1, 1999 through December 31, 2001. For CD loans, the Investment Test, and the Service Test, the evaluation period is April 6, 1999 through June 17, 2002.

For the lending test, Alerus' origination/purchase of home mortgage loans, small loans to businesses, small loans to farms, and CD loans were evaluated. Market comparisons for home mortgage lending and small business and farm lending are based on 2000 peer data. This was the most recent data available at the time of the examination.

### Data Integrity

As part of this CRA evaluation, Alerus' publicly filed information on home mortgage loans, small loans to businesses, and small loans to farms was tested for accuracy. The test included an evaluation of Alerus' processes to ensure that data reported is reliable.

During our initial review of data during January of 2002, we found significant errors in the bank's small business and small farm data. Bank management corrected the information and during our subsequent review in April of 2002 we found no significant errors in any of the reported data. As a result, this evaluation is based on accurate data.

CD loans, investments, and services submitted by Alerus' management were verified to ensure they met the regulatory definition for CD. Except for minor items, we accepted the submitted CD loans, investments, and services.

### Selection of Areas for Full-Scope Review

All of the bank's offices are in the state of North Dakota. Within North Dakota, the bank has two AAs. One AA consists of the Grand Forks, North Dakota/East Grand Forks, Minnesota MA excluding three tracts in rural Minnesota. The other tract consists of the Fargo, North Dakota/Moorhead, Minnesota MA excluding two tracts in rural Minnesota. We conducted full scope reviews in each of the AAs. Both AAs are significant to the bank in regard to number of branches, deposit activity, and loan originations. The Grand Forks AA represents 50% of the branches, 63% of deposits, and 60% of loan originations. The Fargo AA represents 50% of the branches, 37% of deposits, and 40% of loan originations.

### Ratings

The bank's overall rating is based primarily on those areas that received full-scope reviews. Although both of the full scope AAs are important to Alerus' overall operations, we placed greater emphasis on the Grand Forks AA due to the greater percentage of deposits and loan originations present in this AA.



## **Other**

### ***Grand Forks AA***

We reviewed 8 existing community contacts made in the Grand Forks AA and conducted one new community contact. The contacts reviewed covered a variety of housing, development, and social services agencies. The contacts were generally positive concerning the performance of local financial institutions. While certain finance needs for start-up businesses and low-income housing were identified, contacts do not see a high number of opportunities for local financial institutions. Following the 1997 flood many community needs were met through flood disaster monies that were created by federal and state authorities.

### ***Fargo AA***

We reviewed 5 existing community contacts made in the Fargo AA and conducted one new community contact. The contacts reviewed covered a variety of housing, development, and social services agencies. The contacts commented on the strong growth of the Fargo/Moorhead MA and on the strong competition between financial institutions. No specific needs were identified and the contacts generally had a very good opinion on the community development performance of local financial institutions.

## **Fair Lending Review**

An analysis of the most recent public comments, consumer complaint information, HMDA, small business, and small farm lending data 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. The latest comprehensive fair lending exam was performed in 1999.

## Conclusions with Respect to Performance Tests

### LENDING TEST

#### Conclusions for Areas Receiving Full-Scope Reviews

Alerus' performance under the Lending Test is rated "High Satisfactory". Based on full-scope reviews, the bank's performance in both the Grand Forks AA and the Fargo AA is good.

#### Lending Activity

Refer to Table 1 Lending Volume for the facts and data used to evaluate the bank's lending activity.

#### Grand Forks AA

Lending levels reflect excellent responsiveness in relation to area credit needs and the bank's deposit market share. As of June 30, 2001, Alerus' deposit market share in the Grand Forks MA was second out of 18 banks in the MA at 18.8%.

In the AA, approximately 47% of the reported loans originated/purchased during the evaluation period were home mortgage loans. Loans to small businesses represent 31% and loans to small farms, 22%.

Home mortgage lending activity in the AA is good. Alerus reported 1,177 home mortgage loans (524 home purchase, 405 refinance, 244 home improvement, and four multi-family) totaling \$85 million over the evaluation period. In 2000, Alerus originated 11% of all reported home purchase loans in the AA, ranking second among 89 lenders. Alerus originated seven percent of all reported 2000 refinance loans in the AA ranking third among 106 lenders. Alerus originated 22.5% of all reported 2000 home improvement loans, ranking first among 36 lenders.

Business lending activity in the AA is excellent. Alerus reported 778 business loans totaling \$101 million over the evaluation period. Alerus originated nearly 22% of all reported 2000 business loans in the AA, ranking first among 32 lenders. Four of 18 local competitors report small business data. The CRA data reporters collectively account for 67% of the MA's deposits.

Farm lending activity in the AA is excellent. Alerus reported 570 farm loans totaling \$64 million. Alerus originated 23% of all reported 2000 farm loans in the AA, ranking second among 13 lenders. Four of 18 local competitors report small farm data. The CRA data reporters collectively account for 67% of the MA's deposits.

## **Fargo AA**

Lending levels reflect good responsiveness in relation to area credit needs and the bank's deposit market share. As of June 30, 2001, Alerus deposit market share in the Fargo MA was seventh out of 31 banks in the MA at 4.5%.

In the AA, approximately 48% of the reported loans originated/purchased during the evaluation period were small business loans. Home mortgage loans represent 45% and loans to small farms, seven percent.

Business lending activity in the AA is excellent. Alerus reported 797 business loans totaling \$111 million over the evaluation period. Alerus originated 10.5% of all reported 2000 business loans in the AA, ranking third among 42 lenders. Eleven of 31 local competitor report small business data. These eleven banks, along with Alerus, represent 81.5% of the MA's deposits.

Home mortgage lending activity in the AA is good. Alerus reported 738 home mortgage loans (347 home purchase, 258 refinance, 130 home improvement, and 3 multi-family) totaling \$55 million over the evaluation period. In 2000, Alerus originated 3% of all reported home purchase loans in the AA, ranking twelfth among 142 lenders. Alerus originated 2% of all reported 2000 refinance loans in the AA ranking eleventh among 144 lenders. Alerus originated 7.5% of all reported 2000 home improvement loans, ranking fifth among 47 lenders.

Farm lending activity in the AA is good. Alerus reported 122 farm loans totaling nearly \$13 million. Alerus originated 5.5% of all reported 2000 farm loans in the AA, ranking fourth among 17 lenders. Nine of 31 local competitors report small farm CRA data. These nine banks, along with Alerus, represent 76% of the MA's deposits.

## **Distribution of Loans by Income Level of the Geography**

Alerus' overall geographic distribution of loans reflects good penetration in the Grand Forks AA and adequate penetration in the Fargo AA.

### ***Home Mortgage Loans***

Refer to Tables 2, 3, 4, and 5 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases. The volume of Alerus' multi-family housing loans was not significant enough to perform a meaningful analysis.

## **Grand Forks AA**

The geographic distribution of home mortgage loans is good.

The geographic distribution of home purchase loans is excellent. The bank's percentage of home purchase loans made in moderate-income geographies exceeds the percentage of owner-occupied housing located in moderate-income geographies. The bank's 2000 market share in moderate-income geographies exceeds its overall market share in the AA.

The geographic distribution of home improvement loans is good. The bank's percentage of home improvement loans made in moderate-income geographies exceeds the percentage of owner-occupied housing located in moderate-income geographies. The bank's 2000 market share in moderate-income geographies is below its overall market share in the AA.

The geographic distribution of refinance loans is good. The bank's percentage of refinance loans made in moderate-income geographies exceeds the percentage of owner-occupied housing located in moderate-income geographies. The bank's 2000 market share in moderate-income geographies is slightly below its overall market share in the AA.

## **Fargo AA**

### **Performance Context Issues**

The AA has only one low-income tract. This tract contains less than one-tenth of one percent of the AA's owner-occupied housing units. Due to the limited number and percentage of owner-occupied units in this low-income tract, no geographical analysis of home mortgage lending to low-income tracts was completed in this evaluation.

### **Home Mortgage Loans**

The geographic distribution of home mortgage loans is adequate.

The geographic distribution of home purchase loans is good. The bank's percentage of home purchase loans made in moderate-income geographies substantially meets the percentage of owner-occupied housing located in moderate-income geographies. The bank's 2000 market share in moderate-income geographies exceeds its overall market share in the AA.

The geographic distribution of home improvement loans is adequate. The bank's percentage of home improvement loans made in moderate-income geographies is below the percentage of owner-occupied housing located in moderate-income geographies. The bank's 2000 market share in moderate-income geographies exceeds its overall market share in the AA.

The geographic distribution of refinance loans is adequate. The bank's percentage of refinance loans made in moderate-income geographies is below the percentage of owner-occupied housing located in moderate-income geographies. The bank's 2000 market share in moderate-income geographies exceeds its overall market share in the AA.

### ***Small Loans to Businesses***

Refer to Table 6 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

**Grand Forks AA**

The geographic distribution of small loans to businesses is adequate. The portion of small loans to businesses made in moderate-income geographies is below the portion of businesses that are within moderate-income geographies. The bank's 2000 market share in moderate-income geographies is below the bank's overall market share.

**Fargo AA**

The geographic distribution of small loans to businesses is excellent. The portion of small loans to businesses made in low-income geographies and in moderate-income geographies exceeds the portion of businesses that are within these geographies. The bank's 2000 market share in low-income geographies substantially meets the bank's overall market share. The bank's 2000 market share in moderate-income geographies exceeds the bank's overall market share.

***Small Loans to Farms***

Refer to Table 7 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to farms.

**Performance Context**

The analysis of geographical distribution of small loans to farms in both AAs is difficult due to the limited number of farms located in the AA's moderate-income tracts. In the Grand Forks AA only .49% of the AA's farms are in moderate-income tracts. In the Fargo AA, 5.75% of the farms are in moderate-income tracts. The limited number of farms in the moderate-income tracts skews some of the percentage numbers, especially the market share percentages that are based only on 2000 data.

**Grand Forks AA**

The geographic distribution of small loans to farms is good. The portion of small loans made in moderate-income geographies exceeds the portion of farms that are in those geographies. The bank's 2000 market share percentage is below the bank's overall market share. The performance context issues discussed above lead to the disparity in the moderate-income market share as compared to the bank's overall market share.

**Fargo AA**

The geographic distribution of small loans to farms is adequate. The portion of small loans made in moderate-income geographies is below the portion of farms that are in those geographies. The bank's 2000 market share percentage exceeds the bank's overall market share.

## **Lending Gap Analysis**

Maps and reports detailing Alerus' lending activity over the evaluation period for home mortgage loans, small loans to businesses, and small loans to farms were reviewed to identify gaps in the geographic distribution of those loans. No unexplained, conspicuous gaps were identified in either of the bank's two AAs.

### ***Inside/Outside Ratio***

A substantial majority of the home mortgage loans, small loans to businesses, and small loans to farms originated by Alerus during the evaluation period were within its AA. Ninety percent of the bank's home mortgage loans, 91% of its small loans to businesses, and 78% of its small loans to farms were within its AAs. This performance was positively factored into the overall analysis of the geographic distribution of lending by income level of geography.

## **Distribution of Loans by Income Level of the Borrower**

The borrower distribution of Alerus' loans reflects adequate dispersion among borrowers of different income levels throughout both AA geographies.

### ***Home Mortgage Loans***

Refer to Tables 8, 9, and 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

## **Performance Context**

Both AAs have substantial populations with income below poverty level (less than \$14,550 per 2001 HUD information for the Grand Forks MA and \$16,500 for the Fargo MA). The Grand Forks AA has 14% of its families with income below poverty level. The Fargo AA has 10% of its families with income below poverty level. At this income level, it is difficult to purchase a home when the median home value in 1990 was \$58,615 in the Grand Forks AA and \$63,303 in the Fargo AA. We considered the number of families living with income below poverty level when analyzing the bank's lending to low-income individuals.

### **Grand Forks AA**

Home purchase loan borrower distribution is adequate. The portion of loans made to low-income borrowers is below the comparable demographic, but is considered adequate based on the mitigating factors discussed in the performance context. The portion of loans made to moderate-income borrowers exceeds the comparable demographic. The market share percentage for loans made to both low- and moderate-income borrowers is below Alerus' overall market share for home purchase loans.

Home improvement loan borrower distribution is adequate. The portion of loans made to low-income borrowers is significantly below the comparable demographic, but is considered adequate based on the mitigating factors discussed in the performance context. The portion of loans made to moderate-income borrowers in the AA is below the portion of families that are defined as such. The market share percentage for loans made to both low- and moderate-income borrowers is significantly lower than Alerus' overall market share for home improvement loans.

Refinance loan borrower distribution is adequate. The portion of refinance loans made to low-income borrowers is significantly below the comparable demographic, but is considered adequate based on the mitigating factors discussed in the performance context. The portion of loans made to moderate-income borrowers is below the comparable demographic. The market share percentage for loans made to both low- and moderate-income borrowers is lower than Alerus' overall market share for refinance loans.

### **Fargo AA**

Home purchase loan borrower distribution is excellent. The portion of loans made to low-income borrowers is below the comparable demographic, but is considered excellent based on the mitigating factors discussed in the performance context. The portion of loans made to moderate-income borrowers exceeds the comparable demographic. The market share percentage for loans made to both low- and moderate-income borrowers exceeds Alerus' overall market share for home purchase loans.

Home improvement loan borrower distribution is adequate. The portion of loans made to low-income borrowers is below the comparable demographic, but is considered adequate based on the mitigating factors discussed in the performance context. The portion of loans made to moderate-income borrowers in the AA is below the portion of families that are defined as such. The market share percentage for loans made to both low- and moderate-income borrowers is significantly lower than Alerus' overall market share for home improvement loans.

Refinance loan borrower distribution is good. The portion of refinance loans made to low-income borrowers is below the comparable demographic, but is considered adequate based on the mitigating factors discussed in the performance context. The portion of loans made to moderate-income borrowers exceeds the comparable demographic. The market share percentage for loans made to low-income borrowers exceeds Alerus' overall market share for refinance loans made to low-income borrowers. The market share percentage of loans made to moderate-income borrowers substantially meets Alerus' overall market share for refinance loans made to moderate-income borrowers.

### ***Small Loans to Businesses***

Refer to Table 11 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

### **Grand Forks AA**

The borrower distribution of small loans to businesses is adequate. The portion of Alerus' loans to small businesses (businesses with revenues of \$1 million or less) is below the portion



of businesses that are defined as such. Alerus' market share percentage for such loans exceeds Alerus' overall market share for small loans to all businesses.

### **Fargo AA**

The borrower distribution of small loans to businesses is adequate. The portion of Alerus' loans to small businesses (businesses with revenues of \$1 million or less) is below the portion of businesses that are defined as such. Alerus' market share percentage for such loans exceeds Alerus' overall market share for small loans to all businesses.

### ***Small Loans to Farms***

Refer to Table 12 in the Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

### **Grand Forks AA**

The borrower distribution of small loans to small farms (farms with revenues of \$1 million or less) is good. The portion of Alerus' loans to small farms is slightly below the number of small farms in the AA. Alerus' market share percentage of loans to small farms exceeds Alerus' overall market share of loans to all size farms.

### **Fargo AA**

The borrower distribution of small loans to small farms (farms with revenues of \$1 million or less) is good. The portion of Alerus' loans to small farms is slightly below the number of small farms in the AA. Alerus' market share percentage of loans to small farms exceeds Alerus' overall market share of loans to all size farms.

### **Community Development Lending**

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's level of community development lending. This table includes all CD loans, including multifamily loans that also qualify as CD loans. In addition, Table 5 includes geographic lending data on all multi-family loans, including those that also qualify as CD loans. Table 5 does not separately list CD loans.

CD lending had a neutral impact on the Lending Test Conclusions. CD lending opportunities are limited in both of the bank's AAs. Community contacts indicated that many community development needs are met through federal and state funding programs, particularly in the Grand Forks AA following the 1997 flood.

During the evaluation period, Alerus originated one CD loan totaling \$1.4 million in the Grand Forks AA and two CD loans totaling \$410M in the Fargo AA. Neither of the loans are considered complex or innovative. The following is a discussion on each CD loan.

## **Grand Forks AA**

- A \$1.4 million loan was made to a partnership to renovate an old Junior High School into affordable housing units. The renovation created 45 total housing units, 29 of which were for affordable housing at below market rates and 16 units at market rates.

## **Fargo AA**

- A \$170 thousand loan was made to a local church to purchase and refurbish five homes in the North Fargo area. The repairs on the individual homes were done by church members. The homes are marketed to families with limited income, similar to Habitat for Humanity homes. Each house is sold to the buyers for only the total costs into the house.
- A \$240 thousand loan was made to the Easter Seals Goodwill of North Dakota to fund relocation and improvements of four homes from flood locations to new, dry locations. Each of the homes will be sold to low- and moderate-income borrowers with an approximate price range of \$75 thousand to \$95 thousand, well under the median price of housing in the Fargo market which is estimated at \$125 thousand to \$150 thousand.

## **Product Innovation and Flexibility**

Product Innovation and flexibility had a neutral impact on the Lending Test Conclusions.

Alerus offers several programs in-conjunction with state and local agencies to benefit its local communities. One example of such a program that increases homeownership among low- and moderate-income borrowers is detailed below.

- Alerus offers down-payment assistance programs through local agencies and through the North Dakota Housing Finance Agency (NDHFA). These programs provide down-payment and closing cost assistance to potential homebuyers with income less than 80% of the median family income (moderate-income, or below). The programs provide flexibility to low- and moderate-income borrowers and allow more homeownership within Alerus' AAs. Alerus utilized these programs over the evaluation period to help make 68 home mortgage loans totaling nearly \$4.5 million to low- and moderate-income borrowers in the Grand Forks AA. In the Fargo AA, 47 loans were made totaling \$3.4 million.

## **INVESTMENT TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the investment test is rated "High Satisfactory. Based on full-scope reviews, the bank's performance in the Grand Forks AA is good and in the Fargo AA is adequate.

Refer to Table 14 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.

### **Performance Context**

CD investments within the bank's AAs are limited. Neither AA has an accessible market for CD qualified investments. Discussions with community contacts indicate that opportunities are limited and bank competition for the limited number of CD investments is high. We did not identify any opportunities for CD investments in our performance context research or our review of the CRA performance evaluations of competing banks.

### **Grand Forks AA**

During the evaluation period, Alerus made 33 investments totaling \$151 thousand. Thirteen additional investments were made prior to the evaluation period, but remain on the bank's books with a balance of nearly \$2.5 million. Alerus committed to fund one more investment for \$75 thousand to be funded later in 2002.

Five of Alerus' previous investments totaling \$1,462,000 were bonds purchased to build a new city service building in downtown Grand Forks. The location of the building is in a moderate-income tract. This area was especially hard hit by the 1997 flood disaster and the bond issue revitalized the area and helped make social services available to low- and moderate-income persons. These five investments and the other prior period investments continue to benefit the AA's low- and moderate-income tracts and individuals.

### **Fargo AA**

Investments in the Fargo AA consists of grants and donations. During the evaluation period, Alerus made 19 investments totaling \$80 thousand.

## SERVICE TEST

### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Service Test is rated "High Satisfactory". Based on full-scope reviews, the bank's performance in both the Grand Forks AA and the Fargo AA is good.

#### Retail Banking Services

Refer to Table 15 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

Alerus' delivery systems are readily accessible to geographies and individuals of different income levels throughout each AA. Of the five offices located in the Grand Forks AA, two are in moderate-income tracts (40%) and three are in middle-income tracts (60%). The branch locations in the moderate-income tracts exceed the population demographics of the area as roughly 20% of the AA's population reside in moderate-income tracts.

Of the five branches in the Fargo AA, three are located in moderate-income tracts (60%), one is in a middle-income tract (20%), and one is in an upper-income tract (20%). The branch locations in the moderate-income tracts exceed the population demographics of the area as 18% of the AA's population reside in moderate-income tracts.

One branch was closed in each AA during the evaluation period. Both closed branches were located in middle-income tracts. Customers were not inconvenienced as Alerus' operates other branches in close proximity to the ones that were closed.

Business hours and services offered throughout each AA are reasonable and do not vary in a way that inconveniences any customers. In the Grand Forks AA, all of the offices are open five days a week and three of the offices, including one of the moderate-income branches, are open on Saturdays. Drive-up services are available at three of the offices. In the Fargo, four of five offices are open five days a week, with three offices also open on Saturday, including two branches located in moderate-income tracts. Drive-up services are available at two offices.

Deposit and loan products can be obtained at each branch. Alerus offers a no minimum balance checking account in each AA that allows customers to maintain accounts without fees.

Alerus operates thirteen ATMs in the Grand Forks AA and five ATMs in the Fargo AA. The ATMs are situated to meet the needs of each AA. Of the thirteen ATMs in the Grand Forks AA, two are in moderate-income geographies, eight are in middle-income geographies, and three are in upper-income geographies. Of the five ATMs in the Fargo AA, four are in moderate-income geographies and one is in an upper-income tract.

Other alternative delivery systems include a 24-hour telephone banking service and an Internet banking service. The telephone banking service allows customers to check balances, review account history, transfer funds between accounts, make loan payments, and check CD and loan rates. The Internet banking service offers similar features.

## **Community Development Services**

Alerus provides a good level of community development services in both of its AAs. Bank officers regularly participate in a variety of organizations that primarily benefit low- and moderate-income individuals or promote economic development. Officers and bank representatives provide financial expertise to various organizations. These activities include participation and involvement in economic development corporations, bank services education, city organizations, homebuyer education, and other community development organizations.

## Appendix A: Scope of Examination

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The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD Loans): 1/01/99 to 12/31/01 Investment and Service Tests and CD Loans: 4/6/1999 to June 17, 2002	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Alerus Financial, N.A. Grand Forks, North Dakota	Home mortgage loans, small loans to businesses, small loans to farms, and CD loans.	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None (No affiliate products were reviewed)		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Grand Forks AA Fargo AA	Full Scope Full Scope	

# Appendix B: Market Profiles for Full-Scope Areas

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## Table of Contents

### Market Profiles for Areas Receiving Full-Scope Reviews

Grand Forks AA.....	B-2
Fargo AA.....	B-4

## Grand Forks AA

Demographic Information for Full-Scope Area: Grand Forks AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	26	0%	15%	69%	16%	0%
Population by Geography	93,571	0%	20%	66%	14%	0%
Owner-Occupied Housing by Geography	36,274	0%	2%	78%	19%	0%
Businesses by Geography	2,919	0%	14%	74%	12%	0%
Farms by Geography	112	0%	3%	89%	8%	0%
Family Distribution by Income Level	23,130	0%	16%	69%	15%	0%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	23,130	16%	19%	26%	39%	0%
Median Family Income = \$31,103 HUD Adjusted Median Family Income for 2001 = \$48,500 Households Below the Poverty Level = 14.04%						Median Housing Value = \$58,615 Unemployment Rate (1/1/2000) = 3%

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 1990 U.S. Census, and 2001 HUD updated MFI.

Alerus' operations in the Grand Forks AA include its full variety of financial products and services. The Grand Forks AA includes substantially all of the Grand Forks/East Grand Forks MA. The MA is made up of Grand Forks County, North Dakota and Polk County, Minnesota. The MA includes 29 census tracts, three of which are not included in the Grand Forks AA. These middle-income tracts are the furthest distance from the bank's branches, are predominantly rural, and are served by local community banks. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Four of the twenty-six tracts are moderate-income tracts. One is located at the Grand Forks Air Force Base, one comprises the University of North Dakota campus, and two areas encompass the downtown area and adjacent neighborhood.

Economic conditions in the AA are generally stable. Low commodity prices and recent poor crop production has made a fair share of the area's economy dependent on government price supports and disaster payments.

Grand Forks is a center of commerce for northeastern North Dakota and northwest Minnesota. The surrounding area relies on Grand Forks for retail trade, health care, and social services. Large employers include the University of North Dakota, Altru Health Systems, and the Grand Forks Air Force Base. Unemployment in the AA is minimal.



Opportunities for community development in moderate-income areas were limited over the evaluation period. Two of the four moderate-income tracts lie adjacent to the Red River. These areas were significantly damaged during the 1997 flood. Several local, state, and federal programs have been available to assist the with community rebuilding efforts. These programs provide low-interest loans and grant monies that local financial institutions cannot match.

Competition is strong with 17 other financial institutions operating in the AA. Alerus ranks second in the area's deposit market share at 19%. Primary competition includes Bremer Bank, N.A., U.S. Bank, Community National Bank of Grand Forks, and Wells Fargo Bank of North Dakota, which have deposit market shares of 22%, 14%, 8%, and 4% respectively.

## Fargo AA

Demographic Information for Full-Scope Area: Fargo AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	34	3%	20%	65%	12%	0%
Population by Geography	144,131	2%	18%	64%	16%	0%
Owner-Occupied Housing by Geography	57,393	0%	13%	68%	19%	0%
Businesses by Geography	5,790	0%	46%	42%	12%	0%
Farms by Geography	183	0%	16%	76%	8%	0%
Family Distribution by Income Level	35,084	1%	15%	66%	18%	0%
Distribution of Low- and Moderate-Income Families throughout AA Geographies	35,084	18%	18%	26%	38%	0%
Median Family Income	= \$34,612	Median Housing Value				= \$63,303
HUD Adjusted Median Family Income for 2000	= \$55,000	Unemployment Rate (1/1/2000)				= 2.75%
Households Below the Poverty Level	= 14.35%					

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 1990 U.S. Census, and 2001 HUD updated MFI.

Alerus' operations in the Fargo AA include a full range of loans, deposits, and financial service products. The AA is part of the Fargo/Moorhead multi-state MA. The MA is comprised of Cass County in North Dakota and Clay County in Minnesota. The AA does not include two tracts located in the Minnesota portion of the MA. These middle-income tracts are the furthest distance from the bank's branches, are predominantly rural, and are served by local community banks. The AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The AA contains 34 census tracts. There is only one low-income tract, which is located in Fargo, North Dakota. The tract includes a majority of the North Dakota State University campus, as well as a small, older industrial area of Fargo. Seven tracts are moderate-income, each of these are located in downtown Fargo, or in downtown Moorhead, Minnesota.

Economic conditions across the AA are good. The Fargo/Moorhead community continues to grow as the rural population migrates to larger communities in search of employment opportunities. The labor market is characterized as "tight" with the unemployment rate generally in the 1.5% to 3% range. Major employers in the area include; MeritCare Health System, American Crystal Sugar Company, North Dakota State University, and Melroe Company.

Competition in the AA is strong. The Fargo/Moorhead area has seen competition for banking and financial service products increase as rural banks have branched into the area with prospects of growth and diversification of loan products. A total of 31 banks have locations within the AA. Alerus ranks 7<sup>th</sup> in the Fargo/Moorhead MA in total deposits with a market share of 4.5%. The leading banks in the area are State Bank of Fargo, U.S. Bank of ND, U.S. Bank, N.A., and Wells Fargo Bank of ND which have deposit market shares of 16%, 13%, 10% and 10% respectively. Competition for loan products is very strong. In 2000, there were 20 banks reporting at least 100 HMDA loans and 10 banks reported over 100 small business loans.

## Appendix C: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption, such as “Statewide/Regional” or “Out of Assessment Area,” in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column.
- Table 1. Other Products** - This table was omitted due to lack of reported data for other loan products.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.

- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.

**Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL) -**  
This table was omitted due to lack of reported data for consumer loans.

**Table 14. Qualified Investments -** Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item with the appropriate caption, such as "Statewide/Regional" or "Out of Assessment Area," in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings -**  
Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

**Table 1. Lending Volume**

LENDING VOLUME		Geography: NORTH DAKOTA						Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2001				
MA/Assessment Area (2001):	% of Rated Area Loans (#) in MA/AA	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans **		Total Reported Loans		% of Rated Area Deposits in MA/AA ***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>												
Fargo AA	39.65	739	55,083	797	111,441	122	12,652	2	410	1,660	179,586	36.81
Grand Forks AA	60.35	1,178	84,850	778	101,174	570	64,121	1	1,381	2,527	251,526	63.19

\* Loan Data as of December 31, 2001. Rated area refers to either the state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is From April 06, 1999 to June 17, 2002.

\*\*\* Deposit Data as of June 30, 2001. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE 31, 2001		Geography: NORTH DAKOTA						Evaluation Period: JANUARY 1, 1999 TO DECEMBER							
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Fargo AA	347	39.84	0.09	0.00	13.19	12.39	68.34	42.65	18.39	14.99	3.34	0.00	3.62	3.35	3.19
Grand Forks AA	524	60.16	0.00	0.00	2.49	2.86	78.35	45.23	19.16	16.98	13.76	0.00	17.02	13.08	15.45

\* Based on 2000 Peer Mortgage Data: Midwest Region.

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 Census information.



**Table 3. Geographic Distribution of Home Improvement Loans**

Geographic Distribution: HOME IMPROVEMENT DECEMBER 31, 2001		Geography: NORTH DAKOTA								Evaluation Period: JANUARY 1, 1999 TO					
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Fargo AA	130	34.76	0.09	0.00	13.19	10.77	68.34	41.54	18.39	15.38	10.13	0.00	10.96	8.79	14.53
Grand Forks AA	244	65.24	0.00	0.00	2.49	4.51	78.35	45.90	19.16	15.16	27.55	0.00	15.38	27.35	30.77

\* Based on 2000 Peer Mortgage Data: Midwest Region.

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE DECEMBER 31, 2001			Geography: NORTH DAKOTA								Evaluation Period: JANUARY 1, 1999 TO				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Fargo AA	258	38.86	0.09	0.00	13.19	5.81	68.34	20.16	18.39	12.40	3.34	0.00	3.87	2.75	4.73
Grand Forks AA	406	61.14	0.00	0.00	2.49	2.46	78.35	30.54	19.16	17.73	12.8 1	0.00	11.7 6	10.9 1	19.6 4

\* Based on 2000 Peer Mortgage Data: Midwest Region.

\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

**Table 5. Geographic Distribution of Multifamily Loans**

Geographic Distribution: MULTIFAMILY 2001		Geography: NORTH DAKOTA						Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31,							
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% of MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks AA	4	50.00	0.00	0.00	22.96	0.00	68.63	75.00	8.41	0.00	21.43	0.00	0.00	30.00	0.00
Fargo AA	4	50.00	1.77	0.00	33.84	0.00	50.02	50.00	14.37	0.00	0.00	0.00	0.00	0.00	0.00

\* Based on 2000 Peer Mortgage Data: Midwest Region.

\*\* Multifamily loans originated and purchased in the MA/AA as a percentage of all multifamily loans originated and purchased in the rated area.

\*\*\* Percentage of multifamily units is the number of multifamily housing units in a particular geography divided by number of multifamily housing units in the area based on 1990 Census information.

**Table 6. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES DECEMBER 31, 2001			Geography: NORTH DAKOTA								Evaluation Period: JANUARY 1, 1999 TO				
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% of Business***	% BANK Loans	% of Business***	% BANK Loans	% of Business***	% BANK Loans	% of Business***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Fargo AA	797	50.60	0.17	0.25	40.18	43.41	45.25	46.05	14.40	10.29	8.96	8.33	9.43	6.76	4.81
Grand Forks AA	778	49.40	0.00	0.00	10.97	6.94	77.96	74.42	11.08	18.64	17.11	0.00	8.72	9.03	31.05

\* Based on 2000 Peer Small Business Data: US&PR.

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2001).

**Table 7. Geographic Distribution of Small Loans to Farms**

Geographic Distribution: SMALL LOANS TO FARMS DECEMBER 31, 2001			Geography: NORTH DAKOTA						Evaluation Period: JANUARY 1, 1999 TO						
MA/Assessment Area:	Total Small Farm Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% of Farms***	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	Overa II	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Fargo AA	122	17.63	0.00	0.00	5.75	2.46	85.95	93.44	8.30	4.10	5.27	0.00	15.00	3.55	10.64
Grand Forks AA	570	82.37	0.00	0.00	0.49	1.58	95.95	87.19	3.56	11.23	22.45	0.00	3.57	14.27	64.52

\* Based on 2000 Peer Small Business Data: US&PR.

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2001).

**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE 31, 2001			Geography: NORTH DAKOTA				Evaluation Period: JANUARY 1, 1999 TO DECEMBER					Market Share*				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Families**	% BANK Loans****	% Families**	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****						
<b>Full Review:</b>																
Fargo AA	347	39.84	17.60	12.07	17.83	30.17	26.30	28.02	38.27	29.74	3.72	4.03	4.14	3.25	3.80	
Grand Forks AA	524	60.16	16.35	5.08	18.57	19.37	25.97	28.57	39.11	46.98	14.97	8.96	10.95	15.57	18.15	

\* Based on 2000 Peer Mortgage Data: Midwest Region.

\*\* As a percentage of loans with borrower income information available. No information was available for 37.20% of loans originated and purchased by BANK.

\*\*\* Percentage of Families is based on the 1990 Census information.

\*\*\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

**Table 9. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT 31, 2001		Geography: NORTH DAKOTA						Evaluation Period: JANUARY 1, 1999 TO DECEMBER							
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share <sup>*</sup>				
	#	% of Total <sup>**</sup>	% Families <sup>**</sup>	% BANK Loans <sup>****</sup>	% Families <sup>*</sup>	% BANK Loans <sup>****</sup>	% Families <sup>*</sup>	% BANK Loans <sup>****</sup>	% Families <sup>*</sup>	% BANK Loans <sup>****</sup>	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Fargo AA	130	34.76	17.60	4.82	17.83	10.84	26.30	37.35	38.27	46.99	9.78	5.56	5.88	9.95	12.39
Grand Forks AA	244	65.24	16.35	2.76	18.57	11.72	25.97	26.21	39.11	59.31	26.33	10.53	17.74	29.73	30.34

<sup>\*</sup> Based on 2000 Peer Mortgage Data: Midwest Region.

<sup>\*\*</sup> As a percentage of loans with borrower income information available. No information was available for 39.04% of loans originated and purchased by BANK.

<sup>\*\*\*</sup> Percentage of Families is based on the 1990 Census information.

<sup>\*\*\*\*</sup> Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

**Table 10. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE DECEMBER 31, 2001			Geography: NORTH DAKOTA						Evaluation Period: JANUARY 1, 1999 TO						
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*				
	#	% of Total**	% Families**	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Fargo AA	258	38.86	17.60	7.61	17.83	19.57	26.30	26.09	38.27	46.74	3.76	5.56	3.57	3.20	3.93
Grand Forks AA	406	61.14	16.35	1.08	18.57	8.11	25.97	24.86	39.11	65.95	13.97	2.44	7.61	14.41	18.84

\* Based on 2000 Peer Mortgage Data: Midwest Region.

\*\* As a percentage of loans with borrower income information available. No information was available for 58.28% of loans originated and purchased by BANK.

\*\*\* Percentage of Families is based on the 1990 Census information.

\*\*\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.



**Table 11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES DECEMBER 31, 2001		Geography: NORTH DAKOTA				Evaluation Period: JANUARY 1, 1999 TO			
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share*	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Fargo AA	797	50.60	84.97	60.23	66.12	18.44	15.43	8.96	10.50
Grand Forks AA	778	49.40	85.53	58.35	69.54	15.55	14.91	17.11	21.89

\* Based on 2000 Peer Small Business Data: US&PR.

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2001).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 4.51% of small loans to businesses originated and purchased by the bank.

**Table 12. Borrower Distribution of Small Loans to Farms**

Borrower Distribution: SMALL LOANS TO FARMS DECEMBER 31, 2001		Geography: NORTH DAKOTA				Evaluation Period: JANUARY 1, 1999 TO			
MA/Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share*	
	#	% of Total**	% of Farms***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Fargo AA	122	17.63	95.27	92.62	64.75	28.69	6.56	5.27	5.56
Grand Forks AA	570	82.37	93.69	91.05	64.91	22.63	12.46	22.45	22.64

\* Based on 2000 Peer Small Business Data: US&PR.

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B - 2001).

\*\*\*\* Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 3.03% of small loans to farms originated and purchased by the bank.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS 2001		Geography: NORTH DAKOTA				Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31,			
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Fargo AA	0	0	19	80	19	80	2.95	0	0
Grand Forks AA	13	2,477	33	151	46	2,628	97.05	1	75

\* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

\*\* 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings**

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS JANUARY 1, 1999 TO DECEMBER 31, 2001								Geography: NORTH DAKOTA				Evaluation Period:					
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings				Population					
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Fargo AA	36.81	5	50	0.00	60.00	20.00	20.00	0	1	0	0	- 1	0	2.16	18.10	63.83	15.92
Grand Forks AA	63.19	5	50	0.00	40.00	60.00	0.00	0	1	0	0	- 1	0	0.00	19.92	66.17	13.91