

FEDERAL RESERVE SYSTEM

Alerus Financial Corporation  
Grand Forks, North Dakota

Order Approving the Merger of Bank Holding Companies

Alerus Financial Corporation (“Alerus”), Grand Forks, North Dakota, a financial holding company within the meaning of the Bank Holding Company Act (“BHC Act”),<sup>1</sup> has requested the Board’s approval under section 3 of the BHC Act<sup>2</sup> to merge with MPB BHC, Inc. (“MPB”), a bank holding company, and thereby indirectly acquire MPB’s state nonmember bank subsidiary, Metro Phoenix Bank (“Metro Bank”), both of Phoenix, Arizona.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (87 Federal Register 2435 (January 14, 2022)).<sup>3</sup> The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Alerus, with consolidated assets of approximately \$3.4 billion, is the 355th largest insured depository organization in the United States.<sup>4</sup> Alerus controls approximately \$3.0 billion in consolidated deposits, which represent less than 1 percent

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<sup>1</sup> 12 U.S.C. § 1841 et seq.

<sup>2</sup> 12 U.S.C. § 1842.

<sup>3</sup> 12 CFR 262.3(b).

<sup>4</sup> Consolidated asset and national ranking data are as of December 31, 2021.

of the total amount of deposits of insured depository institutions in the United States.<sup>5</sup> Alerus controls Alerus Financial, National Association (“Alerus Financial”), Grand Forks, North Dakota, which operates in Arizona, Minnesota, and North Dakota. Alerus is the 49th largest insured depository organization in Arizona, controlling deposits of approximately \$116.9 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state.<sup>6</sup>

MPB, with consolidated assets of approximately \$411.8 million, is the 2,092nd largest insured depository organization in the United States. MPB controls approximately \$364.6 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. MPB controls Metro Bank, which operates in Arizona. MPB is the 31st largest insured depository organization in Arizona, controlling deposits of approximately \$351.8 million, which represent less than 1 percent of the total amount of deposits of insured depository institutions in that state.

On consummation of this proposal, Alerus would become the 332nd largest insured depository organization in the United States, with consolidated assets of approximately \$3.8 billion, which would represent less than 1 percent of the total assets of insured depository organizations in the United States. Alerus would control total consolidated deposits of approximately \$3.4 billion, which would represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In Arizona, Alerus would become the 30th largest insured depository organization, controlling deposits of approximately \$468.7 million, which would represent less than 1 percent of the total deposits of insured depository institutions in that state.

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<sup>5</sup> Consolidated national deposit and market share data are as of December 31, 2021. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

<sup>6</sup> State deposit ranking and deposit data are as of June 30, 2021.

### *Interstate Analysis*

Section 3(d) of the BHC Act generally provides that, if certain conditions are met, the Board may approve an application by a bank holding company that is well capitalized and well managed to acquire control of a bank located in a state other than the home state of the bank holding company without regard to whether the transaction is prohibited under state law.<sup>7</sup> The Board (1) may not approve an application that would permit an out-of-state bank holding company or bank to acquire a bank in a host state if the target bank has not been in existence for the lesser of the state statutory minimum period of time or five years;<sup>8</sup> (2) must take into account the record of the applicant's bank under the Community Reinvestment Act of 1977 ("CRA")<sup>9</sup> and the applicant's record of compliance with applicable state community reinvestment laws;<sup>10</sup> and (3) may not approve an interstate application if the bank holding company controls or, upon consummation of the proposed transaction, would control more than 10 percent of the total deposits of insured depository institutions in the United States or, in certain circumstances, if the bank holding company, upon consummation, would control 30 percent or more of the total deposits of insured depository institutions in the target bank's home state or in any state in which the acquirer and target have overlapping banking operations.<sup>11</sup>

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<sup>7</sup> 12 U.S.C. § 1842(d)(1)(A).

<sup>8</sup> 12 U.S.C. § 1842(d)(1)(B).

<sup>9</sup> 12 U.S.C. § 2901 et seq.

<sup>10</sup> 12 U.S.C. § 1842(d)(3).

<sup>11</sup> 12 U.S.C. § 1842(d)(2)(A) and (B). For purposes of section 3(d) of the BHC Act, the acquiring and target organizations have overlapping banking operations in any state in which any bank to be acquired is located and the acquiring bank holding company controls any insured depository institution or a branch. The Board considers a bank to be located in the states in which the bank is chartered, headquartered, or operates a branch. See 12 U.S.C. § 1841(o)(4)-(7).

For purposes of the BHC Act, the home state of Alerus is North Dakota.<sup>12</sup> Metro Bank is located in Arizona. Alerus is well capitalized and well managed under applicable law. Alerus Financial has an “Outstanding” rating under the CRA, and Metro Bank has been in existence for more than five years. There are no state community reinvestment laws that apply to this proposal.

On consummation of the proposed transaction, Alerus would control less than 1 percent of the total amount of consolidated deposits in insured depository institutions in the United States. Arizona imposes a 30 percent limit on the total amount of in-state deposits that a single banking organization may control.<sup>13</sup> The combined organization would control less than 1 percent of the total amount of deposits of insured depository institutions in Arizona. Accordingly, in light of all the facts of record, the Board is not precluded from approving the proposal under section 3(d) of the BHC Act.

### ***Competitive Considerations***

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market.<sup>14</sup> The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the communities to be served.<sup>15</sup>

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<sup>12</sup> 12 U.S.C. § 1841(o)(4). A bank holding company’s home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later.

<sup>13</sup> See Ariz. Rev. Stat. § 6-328(A) (30 percent).

<sup>14</sup> 12 U.S.C. § 1842(c)(1)(A).

<sup>15</sup> 12 U.S.C. § 1842(c)(1)(B).

Alerus and MPB have subsidiary banks that compete directly in the Phoenix, Arizona, banking market (“Phoenix market”).<sup>16</sup> The Board has considered the competitive effects of the proposal in this banking market. In particular, the Board has considered the relative share of total deposits in insured depository institutions in the market (“market deposits”) that Alerus would control;<sup>17</sup> the concentration level of market deposits and the increase in this level, as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice (“DOJ”) Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);<sup>18</sup> the number of competitors that would remain in the market; and other characteristics of the market.

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<sup>16</sup> The Phoenix market is defined as the Phoenix Metropolitan Area in the Northwestern Pinal and Maricopa counties.

<sup>17</sup> Local deposit and market share data are as of June 30, 2021, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

<sup>18</sup> In applying the DOJ Bank Merger Guidelines issued in 1995 (see <https://www.justice.gov/atr/bank-merger-competitive-review-introduction-and-overview1995>), the Board looks to the DOJ’s Horizontal Merger Guidelines, issued in 1992 and amended in 1997, for the characterization of a market’s concentration. See <https://www.justice.gov/atr/horizontal-merger-guidelines-0>. Under these Horizontal Merger Guidelines, which were in effect prior to 2010, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The DOJ has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010 (see <https://www.justice.gov/atr/horizontal-merger-guidelines-08192010>), the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. See Press Release, Department of Justice (August 19, 2010), available at

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines in the Phoenix market. On consummation, the Phoenix market would remain moderately concentrated as measured by the HHI, according to the DOJ Bank Merger Guidelines, and numerous competitors would remain in the market.<sup>19</sup>

The DOJ also has conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition, or on the concentration of resources, in the Phoenix market, or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

### ***Financial, Managerial, and Other Supervisory Considerations***

In reviewing a proposal under section 3 of the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved, the effectiveness of the institutions in combatting money

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<https://www.justice.gov/opa/pr/department-justice-and-federal-trade-commission-issuerevised-horizontal-merger-guidelines>.

<sup>19</sup> Alerus is the 41st largest depository organization in the Phoenix market, controlling approximately \$116.9 million in deposits, which represent less than 1 percent of market deposits. MPB is the 25th largest depository organization in the market, controlling deposits of approximately \$351.8 million, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, Alerus would become the 24th largest depository organization in the market, controlling deposits of approximately \$468.7 million, which would represent less than 1 percent of market deposits. The HHI for the Phoenix market would increase by 1 point to 1616, and 61 competitors would remain in the market.

laundering, and any public comments on the proposal.<sup>20</sup> In its evaluation of financial factors, the Board reviews information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of public and supervisory information regarding capital adequacy, asset quality, liquidity, and earnings performance, as well as any public comments on the proposal. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and to effectively complete the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

Alerus, MPB, and their respective subsidiary depository institutions are well capitalized, and the combined organization would remain so upon consummation of the proposal. The proposed transaction is a bank holding company merger that is structured as a share exchange, with a subsequent merger of the subsidiary banks.<sup>21</sup> The capital, asset quality, earnings, and liquidity of Alerus and MPB are consistent with

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<sup>20</sup> 12 U.S.C. § 1842(c)(2), (5), and (6).

<sup>21</sup> Alerus would effect the transaction by merging MPB with and into Alerus, with Alerus surviving the merger. At the time of the merger, each share of MPB common stock would be cancelled and converted into a right to receive Alerus common stock or, in certain circumstances, cash. Immediately following the merger, Alerus would operate Metro Bank as a separate standalone bank. Alerus has represented that it intends to merge Metro Bank with and into Alerus Financial some time after the holding company merger is consummated. The bank merger would be subject to approval by the Office of Comptroller of the Currency ("OCC") under section 18(c) of the Federal Deposit Insurance Act, 12 U.S.C. § 1828(c). Alerus has the financial resources to effect the proposed transaction.

approval, and Alerus and MPB appear to have adequate resources to absorb the related costs of the proposal and to complete the integration of the institutions' operations. In addition, the future prospects of the institutions are considered consistent with approval.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of Alerus, MPB, and their respective subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Alerus; the Board's supervisory experiences and those of other relevant bank supervisory agencies with the organizations; the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws; and a public comment on the proposal.

Alerus, MPB, and their respective subsidiary depository institutions are each considered to be well managed. The combined organization's proposed directors and senior executive officers have knowledge of and experience in the banking and financial services sectors, and the proposed risk-management program appears consistent with approval of this expansionary proposal.

The Board also has considered Alerus's plans for implementing the proposal. Alerus has conducted comprehensive due diligence and is devoting sufficient financial and other resources to address all aspects of the post-acquisition integration process for this proposal. In addition, Alerus's management has the experience and resources to operate the resulting organization in a safe and sound manner.

Based on all the facts of record, including Alerus's supervisory record, managerial and operational resources, and plans for operating the combined organization after consummation, the Board determines that considerations relating to the financial and managerial resources and the future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Alerus and MPB in combatting money-laundering activities, are consistent with approval.



### *Convenience and Needs Considerations*

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served.<sup>22</sup> In its evaluation, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve, as well as other potential effects of the proposal on the convenience and needs of these communities. The Board considers and places particular emphasis on the records of the relevant depository institutions under the CRA. The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with the institutions' safe and sound operation.<sup>23</sup> The CRA also requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating bank expansionary proposals.<sup>24</sup>

In addition, the Board considers the banks' overall compliance records and recent fair lending examinations. Fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, gender, or certain other characteristics. The Board also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and public comments on the proposal. The Board also may consider the acquiring institution's business model and marketing and outreach plans, the organization's plans after consummation, and any other information the Board deems relevant.

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<sup>22</sup> 12 U.S.C. § 1842(c)(2).

<sup>23</sup> 12 U.S.C. § 2901(b).

<sup>24</sup> 12 U.S.C. § 2903.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of Alerus Financial and Metro Bank; the fair lending and compliance records of both banks; the supervisory views of the OCC and the Federal Deposit Insurance Corporation (“FDIC”); confidential supervisory information; information provided by Alerus; and the public comment received on the proposal.

*Public Comment on the Proposal*

The Board received one adverse comment on the proposal. The commenter objected to the proposal, alleging that in 2020, Alerus Financial made fewer home loans to African American individuals as compared to white individuals as a result of its disparate marketing.<sup>25</sup>

*Businesses of the Involved Institutions and Response to the Public Comment*

Through Alerus Financial and its subsidiaries, Alerus offers consumer and commercial banking, retirement and benefits, wealth management, and mortgage products and services. Through Metro Bank, MPB offers outdoor media lending, Homeowners Association depository services, and Small Business Administration lending.

In response to the comment, Alerus notes that Alerus Financial achieved an “Outstanding” rating in its most recent CRA performance evaluation and that the OCC stated that it had not found that the bank engaged in discriminatory or other illegal credit practices that required consideration in its evaluation.

Alerus acknowledges the statistics cited by the commenter but asserts that they should be viewed in their wider context. Alerus represents that Alerus Financial recently analyzed its 2020 loan applications for disparities in underwriting outcomes

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<sup>25</sup> The data cited by the commenter appears to correspond to publicly available 2020 data reported by Alerus Financial under the Home Mortgage Disclosure Act of 1975 (“HMDA”), 12 U.S.C. § 2801 *et seq.*

based on race, ethnicity, age, and gender. Alerus asserts that the bank found that it denied applications for African American individuals based on the bank's standard underwriting criteria, such as credit score, credit history, debt-to-income ratio, and amount of cash to close. Alerus further represents that the bank's evaluation of 2020 applications to determine whether similarly (or better) situated African American individuals had different negative outcomes than white individuals revealed no disparate outcomes.

Alerus disputes the commenter's allegations that Alerus Financial engages in disparate marketing and asserts that the bank's marketing primarily involves brand-focused mass media advertising in broad-based publications within the communities served by the bank. Alerus maintains that the bank aims to include a diverse range of individuals in photographs or videos included in its marketing materials and has a specific marketing initiative targeted at customers interested in purchasing or refinancing homes in LMI census tracts, offering a \$1,610 lender credit to apply towards closing and appraisal costs.

#### *Records of Performance under the CRA*

In evaluating the convenience and needs factor and CRA performance of an institution, the Board generally considers the institution's most recent CRA evaluation, as well as information provided by the appropriate federal financial supervisors. In addition, the Board considers information provided by the applicant and by any public commenters. In this case, the Board considered the supervisory views of the OCC with respect to Alerus Financial and the FDIC with respect to Metro Bank.<sup>26</sup>

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to

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<sup>26</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 81 Federal Register 48,506, 48,548 (July 25, 2016).

meet the credit needs of its entire community, including LMI neighborhoods.<sup>27</sup> An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

In general, federal financial supervisors apply a lending test ("Lending Test"), an investment test ("Investment Test"), and a service test ("Service Test") to evaluate the performance of large banks, such as Alerus Financial, in helping to meet the credit needs of the communities it serves. The Lending Test specifically evaluates an institution's lending-related activities to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the Lending Test, examiners review and analyze an institution's data reported under the HMDA, in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations, to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is evaluated based on a variety of factors, including (1) the number and amounts of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's CRA assessment areas ("AAs"); (2) the geographic distribution of the institution's lending, including the proportion and dispersion of the institution's lending in its AAs and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;<sup>28</sup> (4) the

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<sup>27</sup> 12 U.S.C. § 2906.

<sup>28</sup> Examiners also consider the number and amounts of small business and small farm loans made to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

institution's community development lending, including the number and amounts of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.<sup>29</sup> The Investment Test evaluates the number and amounts of qualified investments that benefit the institution's AAs, and the Service Test evaluates the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of the institution's community development services.<sup>30</sup> Small institutions, such as Metro Bank, are subject only to the Lending Test.<sup>31</sup>

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial, ethnic, or gender groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly. However, other information critical to an institution's credit decisions may not be available from public HMDA data.<sup>32</sup> Consequently, the Board requests additional information not available to the public that may be needed from the institution and evaluates disparities in the context of the additional information obtained regarding the lending and compliance record of an institution.

#### *CRA Performance of Alerus Financial*

Alerus Financial was assigned an overall rating of "Outstanding" at its most recent CRA performance evaluation by the OCC, as of June 10, 2019 ("Alerus Financial

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<sup>29</sup> See 12 CFR 228.22(b).

<sup>30</sup> See 12 CFR 228.21 et seq.

<sup>31</sup> See 12 CFR 228.26(a).

<sup>32</sup> Importantly, credit scores are not available in the public HMDA data. Accordingly, when conducting fair lending examinations, examiners analyze additional information not available to the public, such as credit scores, before reaching a determination regarding an institution's compliance with fair lending laws.

Evaluation”).<sup>33</sup> The bank received an “Outstanding” rating for the Lending Test, and “High Satisfactory” ratings for both the Investment and Service Tests.<sup>34</sup>

With respect to the Lending Test, examiners found that Alerus Financial’s lending levels reflected excellent responsiveness to the credit needs in the bank’s AAs, highlighting strong lending performance in the state of Minnesota. Examiners also found that the geographic distribution of loans reflected excellent penetration throughout the bank’s AAs and that the distribution of loans to borrowers of different income levels and businesses of different sizes was adequate. Examiners noted that Alerus Financial was a leader in making community development loans. Examiners also noted that a high percentage of Alerus Financial’s loans were made in the bank’s AAs.

With respect to the Investment Test, examiners found that Alerus Financial made a significant level of qualified community development investments, often in a leadership position. Examiners characterized Alerus Financial as having exhibited good responsiveness to community development needs.

With respect to the Service Test, examiners determined that Alerus Financial’s delivery systems were accessible to essentially all portions of the bank’s AAs. Examiners noted that Alerus Financial’s hours of operation did not vary in a way that inconvenienced certain portions of the bank’s AAs, particularly LMI geographies.

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<sup>33</sup> The Alerus Financial Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed loan data for the Lending and Service Tests from January 1, 2015, through December 31, 2017. Examiners also reviewed loan data for the Investment Test and community development activities from October 1, 2015, through December 31, 2017.

<sup>34</sup> The Alerus Financial Evaluation involved full-scope reviews of the bank’s activities in the following AAs: Grand Forks, North Dakota-Minnesota, Multi-State Metropolitan Statistical Area (“MMSA”); Fargo, North Dakota-Minnesota, MMSA; Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin, Metropolitan Statistical Area (“MSA”); Duluth, Minnesota-Wisconsin, MSA; and Phoenix-Mesa-Scottsdale, Arizona, MSA.

### *CRA Performance of Metro Bank*

Metro Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the FDIC, as of October 16, 2017 (“Metro Bank Evaluation”).<sup>35</sup> Metro Bank received a “Satisfactory” rating for the Lending Test.<sup>36</sup>

Examiners found that Metro Bank’s loan-to-deposit ratio was reasonable given the bank’s size and financial condition and the credit needs in the bank’s AA. Examiners noted that Metro Bank made a substantial majority of its small business loans in its AA and that the geographic distribution of Metro Bank’s small business loans reflected excellent dispersion throughout the AA. Examiners found that the distribution of borrowers reflected reasonable penetration of loans among businesses of different sizes. Further, examiners noted that Metro Bank had not received any CRA-related complaints since the previous evaluation.

### *Additional Supervisory Views*

In its review of the proposal, the Board consulted with the OCC regarding the CRA, consumer compliance, and fair lending records of Alerus Financial and with the FDIC regarding the CRA, consumer compliance, and fair lending records of Metro Bank. The Board also considered the results of the most recent consumer compliance examinations of Alerus Financial and Metro Bank, which included reviews of the banks’ compliance management programs and their compliance with consumer protection laws and regulations.

The Board has taken this information, as well as the CRA performance records of Alerus Financial and Metro Bank, into account in evaluating the proposal, including considering whether Alerus has the experience and resources to ensure that the

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<sup>35</sup> The Metro Bank Evaluation was conducted using Small Institution CRA Examination Procedures. Examiners reviewed loan data from April 9, 2012, through October 16, 2017.

<sup>36</sup> The Metro Bank Evaluation included a full-scope review of the of the bank’s sole AA, consisting of the Phoenix-Mesa-Scottsdale, Arizona, MSA.

combined bank would help meet the credit needs of the communities to be served following consummation of the proposed transaction.

*Additional Convenience and Needs Considerations*

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. Alerus represents that following consummation of the proposal, the combined organization would have the resources necessary to compete with larger national competitors but would remain nimble and customer-focused, with local leadership and decision-making. Alerus also represents that following consummation of the proposal, Alerus Financial would continue to provide a full menu of banking services that meet the needs of the communities it serves, including LMI geographies and individuals. Alerus asserts that there would be no material changes to the business plan or significant changes to the services or products that Alerus Financial currently offers. In addition, Alerus represents that it does not anticipate that any existing branches of Alerus Financial or Metro Bank would be closed, consolidated, or relocated in connection with the proposal.

*Conclusion on Convenience and Needs Considerations*

The Board has considered all the facts of record, including the records of Alerus Financial and Metro Bank under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, supervisory information provided by the FDIC and the OCC, confidential supervisory information, information provided by Alerus, the public comment on the proposal, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board determines that the convenience and needs factor is consistent with approval.

*Financial Stability Considerations*

Section 3 of the BHC Act requires the Board to consider “the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system.”<sup>37</sup>

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<sup>37</sup> 12 U.S.C. § 1842(c)(7).



To assess the likely effect of a proposed transaction on the stability of the United States banking or financial system, the Board considers a variety of metrics that capture the systemic “footprint” of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.<sup>38</sup> These categories are not exhaustive, and additional categories could inform the Board’s decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opacity and complexity of an institution’s internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage on the broader economy.<sup>39</sup>

The Board’s experience has shown that proposals involving an acquisition of less than \$10 billion in total assets, or that result in a firm with less than \$100 billion in total assets, generally are not likely to pose systemic risks. Accordingly, the Board presumes that a proposal does not raise material financial stability concerns if the assets involved fall below either of these size thresholds, absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors.<sup>40</sup>

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<sup>38</sup> Many of the metrics considered by the Board measure an institution’s activities relative to the United States financial system.

<sup>39</sup> For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

<sup>40</sup> See People’s United Financial, Inc., FRB Order No. 2017-08 at 25-26 (March 16, 2017). Notwithstanding this presumption, the Board has the authority to review the financial stability implications of any proposal. For example, an acquisition

In this case, the Board has considered information relevant to risks to the stability of the United States banking or financial system. The proposal involves a target with less than \$10 billion in total assets and a pro forma organization with less than \$100 billion in total assets. Both the acquirer and the target are predominantly engaged in retail and commercial banking activities.<sup>41</sup> The pro forma organization would not exhibit an organizational structure, complex interrelationships, or unique characteristics that would complicate resolution of the firm in the event of financial distress. In addition, the organization would not be a critical services provider or so interconnected with other firms or the markets that it would pose a significant risk to the financial system in the event of financial distress.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the United States banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

### ***Conclusion***

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved.<sup>42</sup> In reaching its conclusion, the

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involving a global systemically important bank could warrant a financial stability review by the Board, regardless of the size of the acquisition.

<sup>41</sup> Alerus and MPB offer a range of retail and commercial banking products and services. Alerus has, and as a result of the proposal would continue to have, a small market share in these products and services on a nationwide basis.

<sup>42</sup> The commenter requested that the Board hold public hearings on the proposal. Under section 3(b) of the BHC Act, the Board must hold a public hearing on a proposal if the appropriate supervisory authorities for the acquiring bank or the bank to be acquired make a timely written recommendation of disapproval of the proposal.

12 U.S.C. § 1842(b); see also 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board, in its discretion, may hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately

Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Alerus with all the conditions imposed in this order and on any commitments made to the Board in connection with the proposal. The Board's approval also is conditioned on receipt by Alerus of all required regulatory approvals. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the 15th calendar day after the effective date of this order or later than three months thereafter, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Minneapolis, acting under delegated authority.

By order of the Board of Governors,<sup>43</sup> effective May 24, 2022.

*Michele Taylor Fennell (signed)*

Michele Taylor Fennell

Deputy Associate Secretary of the Board

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present their views. The Board has considered the commenter's request in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted a written comment that the Board has considered in acting on the proposal. The commenter's request does not identify disputed issues of fact that are material to the Board's decision and would be clarified by a public hearing. In addition, the request does not demonstrate why written comments do not present the commenter's views adequately or why a hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing is not required or warranted in this case. Accordingly, the request for public hearings on the proposal is denied.

The commenter also requested an extension of the comment period for the application. The commenter's requests for additional time to comment did not identify circumstances that would warrant an extension of the public comment period for this proposal. Accordingly, the Board has determined not to extend the comment period.

<sup>43</sup> Voting for this action: Chair Powell and Governors Bowman, Brainard, and Waller.