

## GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act ("CRA") performance of First American Bank Valley, Grand Forks, North Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of October 21, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

## BASIS FOR THE RATING

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

## ASSIGNMENT OF RATING

### Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

## Discussion of Institution's Performance

Institution's Rating:

This institution is rated "Outstanding record of meeting community credit needs" based on the findings presented below.

### I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

The bank's directors, officers, and staff are involved in a variety of activities that enable them to very effectively determine the credit needs of the bank's delineated community. These activities include formal and informal contacts with a variety of local organizations and individuals. The bank determines community credit needs through a combination of activities. These activities include interaction with community groups, customers, business leaders, and government officials.

Because bank officers are active in local community activities, the bank obtains most of its community information through contacts with local residents. Bank officers are leaders and members of a wide variety of civic and fraternal organizations in the delineated community. For example, the bank's president serves on the boards of directors of the Grand Forks Region Economic Development Corporation and the North Dakota Bankers Association. He continues as a member of the Grand Forks Chamber of Commerce. Bank officers are also involved with organizations such as Sertoma International, Grand Forks Exchange Club, Grand Forks Optimist Club, Kiwanis, Walsh County Job Development Authority, Sioux Boosters, Grand Forks Rotary International, Valley Memorial Homes Foundation, and a number of other local civic and religious organizations.

The bank finalized the results of a customer survey in September 1996. The bank used the survey to ascertain the bank's performance in several key areas. The survey was conducted in the Grafton, Larimore, and Grand Forks branch markets. The results of the survey revealed no deficiencies with the bank's service to its customers.

Since the previous evaluation, the bank has not offered any new credit products. It has placed new automated teller machines ("ATM") at several locations in the delineated community.

Through contacts with and participation in the organizations listed previously, bank management is able to ascertain specific community credit needs and investigate the feasibility of the bank meeting those needs.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The board of directors is very involved in the community and in formulating the bank's CRA policies and reviewing its CRA performance. The bank's board of directors is composed of three bank officers and six outside directors. All of the directors reside in the bank's delineated community. All of the outside directors and two of the bank officers are long-time residents of the community. The outside directors represent a variety of commercial interests.

The board's oversight concerning CRA is strong. Board members regularly discuss substantive issues concerning CRA. For instance, the bank's compliance specialist presents information to the board on the bank's CRA performance regularly. The directors approved the bank's CRA statement at its February 22, 1996, meeting. This CRA statement included an analysis of the bank's lending activities, a discussion of the bank's marketing program, a listing of staff involvement in various organizations, and a listing of the bank's credit products. The board of directors also ensures that all technical requirements of the regulation are met.

## II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

The bank has a highly effective marketing program that uses a variety of advertising media. The program uses word-of-mouth communications, print and broadcast advertisements, seminars, statement stuffers, church bulletins, and various sponsorships to promote the bank's name and credit products.

Senior management, in conjunction with the marketing staff of Bremer Financial Services, Inc., an affiliate of Bremer Financial Corporation (the bank's holding company), prepares, plans, and reviews all formal marketing efforts. Print advertising represents the largest part of the bank's marketing efforts. The bank advertises in the Grand Forks Herald, which covers the Grand Forks, North Dakota, and East Grand Forks, Minnesota, communities. In addition, it advertises in the Larimore Pioneer, Larimore Leader, Hillsboro Banner, and Grafton Record. These newspapers serve the Larimore, Hillsboro, and Grafton communities. The bank also advertises in the Walsh County Press, Tri County Sun, and Ag Week magazine. The bank advertises in various organizational brochures as well.

The bank also places advertisements with various local radio and television stations that cover the entire delineated community. Advertisements are placed with radio stations KYCK Country, Magic 96, KKXL 93, KNOX AM, Hot Country Y-95, KMAV-Hillsboro, and KXPO-Grafton. The bank advertises on the following local television stations: WDAZ-TV, KXJB-TV, KBRR-TV, KTHI-TV, and the Cablecom channel. The bank's print and broadcast advertisements promote many of its credit and deposit products.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

The variety of credit products offered by the bank are very effectively tailored to meet the credit needs in the delineated community. The bank underwrites consumer, small business, agricultural, and real estate loans. The different types of consumer and real estate loans are quite extensive. The bank has five active secondary market participants that will purchase mortgage loans. Its consumer loans include automobile, boat, home improvement, and overdraft checking lines of credit.

The bank's loan-to-deposit ratio has remained relatively constant since the last evaluation. Based on quarterly Report of Condition ("ROC") information, the bank's average net loan-to-deposit ratio since the last evaluation is 70%. In July 1995, First American Bank Valley in Grand Forks merged with the First American Banks in Grafton and Larimore, which almost doubled its asset size.

Compared with its peers, the bank has a slightly lower loan-to-deposit ratio. Based on information in the June 30, 1996, Uniform Bank Performance Report, the bank's 74% loan-to-deposit ratio placed it in the 49th percentile, as compared with peer group banks. The bank's loan-to-deposit ratio does not include a sizable number of mortgage loans sold on the secondary market since the previous evaluation.

The following chart, based on ROC data from March 31, 1995, to June 30, 1996, compares the bank's average net loan-to-deposit ratio with other local banks.

Bank Name (Location)	June 30, 1996 Asset Size (In thousands)	Average Net Loan-to-Deposit Ratio
First American Bank Valley Grand Forks, North Dakota	\$342,782	70%
Bank A	\$453,834	87%
Bank B	\$83,228	63%

The majority of the bank's loans are small business and agricultural loans. Based on the bank's June 30, 1996, ROC, the bank's loan portfolio consists of 42% commercial, 33% agricultural, 12% consumer, 11% consumer real estate, and 2% other loans. The bank's percentage of agricultural loans increased after the July 1995 merger.

On an annual basis, the bank conducts a performance review of its lending patterns. The bank performs this review by analyzing its Home Mortgage Disclosure Act ("HMDA") data and a geographic distribution analysis of loans in its portfolio. A review of the bank's loan analysis is detailed in Assessment Factor E.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

The bank is actively involved in a wide range of government-guaranteed credit programs to help meet the community's credit needs. The bank offers Federal Housing Administration ("FHA"), Department of Veterans Affairs ("VA"), North Dakota Housing Finance Agency First Time Home Buyers ("FTHB"), Bank of North Dakota Partnership in Assisting Community Expansion, Small Business Administration ("SBA"), Agricultural

Partnership in Assisting Community Expansion, and Farm Service Agency ("FSA") loan programs.

In the first 9 months of 1996, the bank originated 41 FHA, 15 VA, and 13 FTHB mortgage loans. In 1995, the bank originated 29 FHA, 14 VA, and 8 FTHB mortgage loans. A majority of the bank's residential mortgage loans are sold on the secondary market. In addition, the bank currently has 14 FSA-guaranteed loans and 18 SBA-guaranteed loans outstanding.

### III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

#### Reasonableness of Delineated Community

The bank's delineated community has changed since the previous evaluation. The bank has delineated two communities in its CRA statement. Area 1 is defined as starting at Manvel, North Dakota, and the eastern edge follows Highway 29 north. The delineated community follows Highway 29 until it comes to Drayton, North Dakota. The community then is based on a diagonal line drawn from Drayton northwest to an intersecting point on Highway 81 just south of Glasston, North Dakota. The line then proceeds straight west, intersecting Highway 18, until it reaches a point south and west of Hensel, North Dakota; at this point it proceeds straight south, intersecting Highway 17 just east of Park River, North Dakota. The line then proceeds on a diagonal to the northwestern corner of Grand Forks County, North Dakota, and follows the western edge of Grand Forks County south until it reaches Highway 15. The line then proceeds east following Highway 15 until it stops at Highway 29; the line then turns north and follows Highway 29 back to the southern edge of Grand Forks, North Dakota. The line then stops on Highway 29, at approximately Northfield, North Dakota, and forms a semicircle around East Grand Forks, Minnesota, stopping at a point north of East Grand Forks; it then proceeds on a straight line north to Northland, Minnesota. The line stops at Northland and is drawn straight east until it intersects at the starting point of Manvel, North Dakota.

This area includes all of the branch offices and ATMs, except the Hillsboro office.

Area 2 is defined as a square with the Hillsboro branch office in the center and bounded by east-west lines from Buxton, North Dakota, on the north to Grandin, North Dakota, on the south and north-south lines from Mayville, North Dakota, on the west to the Minnesota state line on the east.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The bank has established a highly effective system to analyze its loan applications. The bank performs an analysis of the geographical distribution of all accepted and denied applications by use of the CENTRAX software program. All loan applications are initially analyzed by zip code. The analysis is then converted into census tracts or block numbering areas ("BNA") using the CENTRAX program. The bank is then able to determine its lending patterns within its delineated community.

An additional feature of the CENTRAX program is that it automatically identifies which census tracts or BNAs are low, moderate, middle, or upper income and the percentage of applications the bank has obtained from these tracts.

The bank's most recent review was conducted using 1995 data. This analysis includes almost all of the bank's outstanding loans. Based on this analysis, the bank has 79.2% of its loans in its delineated community. The bank's analysis of its 1995 lending patterns includes

reasons why the bank's percentage of loans within its assessment area is not higher. First, approximately 13% of the bank's portfolio could not be geocoded because the loan borrowers provided post office box addresses rather than street addresses. Bank management believes that most of these borrowers live within the bank's delineated community. According to bank management, including these borrowers in the sample would raise its percentage of loans within the delineated community to between 90% and 95%. Second, bank management believes many of the loans outside its community were to individuals who formerly resided in Grand Forks. For instance, a number of consumer loans were made to individuals with Hispanic surnames who now have addresses in Texas or other southern states. In addition, the bank has made loans to former residents of the Grand Forks Air Force Base ("Base") and to former students of the University of North Dakota. Although these individuals once lived in Grand Forks, many now live outside the bank's delineated community.

The analysis further reflects that the bank has a more than reasonable distribution of its loans among the moderate-, middle-, and upper-income census tracts and BNAs in its delineated community. Bank management stated that there are no low-income areas within the delineated community. However, there were few loans in the moderate-income tracts.

These moderate-income tracts are primarily located close to the University of North Dakota campus and the Base. Demand for credit in these areas is limited because of the limited incomes and temporary nature of much of the population. Also affecting demand is the small number of owner-occupied homes in these tracts.

## HMDA Data

The bank's main office is located in the Grand Forks metropolitan statistical area ("MSA"), which consists of Grand Forks County, North Dakota, and part of Polk County, Minnesota. According to 1990 census data, the MSA had a total population of 79,655 and included 22 census tracts. The racial composition of the MSA consisted of 93% white, 2% Hispanic, 1.8% African-American, 1.6% Native American, and 1.2% Asian. Four of the census tracts are classified as moderate income, 14 are middle income, and 4 are upper income. According to the HMDA data, the census tract that contains the University of North Dakota campus has only five owner-occupied units. The census tract that includes the Base has only 17 owner-occupied housing units.

The bank is the fifth largest lender in the MSA, accounting for about 8% of the HMDA reportable activity in 1995. In 1994, the bank reported 301 HMDA reportable applications and 239 loans. Of these loans, 167 were made to residents within the bank's MSA-delineated community. The bank received 210 of its applications from its MSA-delineated community. In 1995, the bank reported a total of 259 applications and 231 loans. Of these, 179 applications and 173 loans were to residents of the bank's MSA-delineated community. The bank denied only four applications in its delineated community in 1995, resulting in a denial rate of 2.23%. This compares favorably with the 10.88% denial rate for aggregate lenders.

The bank's HMDA data from 1994 to 1995 indicates that the number of applications received decreased by about 15%, while loans made by the bank in the MSA increased 3%. For all lenders in the MSA, total applications received decreased by 3% and loans made decreased by 4%.

According to 1990 census data, 3% of the owner-occupied housing units in the delineated community are in the moderate-income census tracts. The 1995 HMDA data reflects that the bank originated 100% of the seven applications received from residents residing in the moderate-income census tracts. These seven loans represent 4% of the applications received and loans made in the MSA, compared with 4.7% for aggregate lenders. In addition, the bank made loans in all but two of the census tracts in its delineation. The two tracts where no loans were originated are the census tracts that contain the University of North Dakota and the Base. Given the limited number of owner-occupied homes in these tracts, the lack of activity is reasonable.

The bank's lending activity in its delineated community is more than reasonable for several reasons. First, the bank makes the vast majority of its loans in its delineated community. Second, the bank's distribution of loans among census tracts of different income levels exceeds expectations given the demographic factors affecting lending opportunities in the delineated community's moderate-income census tracts. Third, the bank is a very active originator of HMDA loans in its delineated community.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

The hours and services provided at the bank's branch offices are reasonable. The bank's hours and services are competitive with other local financial institutions and meet the banking needs of the delineated community. The bank's hours and locations are listed in its CRA statement. All of the offices and ATMs are located within the bank's delineated community. The bank has not closed any offices since the previous evaluation.

Since the last evaluation, the bank has opened its new main office on South Columbia Road, Grand Forks, North Dakota. The former main office was converted into a branch and is now known as the downtown office. The bank operates four ATMs in the Grand Forks market and two in Grafton. Two of the Grand Forks ATMs and one Grafton ATM accept deposits.

The board of directors has adopted a branch closing policy for the bank. The policy is designed to minimize the impact of a branch closing on the local area by including provisions for branch closure determinations and customer notification.

#### IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

The evaluation did not reveal any evidence of bank practices intended to discourage applications for the credit types listed in the bank's CRA statement. Through its fair lending training and policies, the bank ensures compliance with fair lending laws and regulations. The bank adopted an Equal Credit Opportunity Act ("ECOA") policy as part of its compliance policies. In general, the ECOA policy prohibits lenders from making lending decisions based on prohibited bases.

The bank's board of directors approved the Second Look program in 1994.

The goal of the program is to ensure that all consumer credit applicants receive fair and equal consideration. The Second Look program applies to denied applications for direct consumer-purpose credit, including those secured by residential real estate.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

The evaluation did not reveal any violations of the substantive provisions of the fair housing and fair lending laws. However, examiners found isolated technical violations of ECOA's Regulation B and HMDA's Regulation C. Management promised to implement prompt corrective action to correct the violations.

### HMDA Data

The bank received few applications from minority residents of the MSA in 1994 and 1995. The data shows that applications from minorities totaled six in 1994 and only three in 1995. The minority applications represent approximately 2.9% in 1994 and 1.7% in 1995 of the total applications received by the bank. The bank indicated that the greatest percentage of minorities in the delineated community reside near the University of North Dakota campus and the Base. Bank management indicated that many minorities in the MSA are short-term residents who are not in the market for long-term mortgage products.

### V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

The bank is very active in a number of community development projects. The bank has actively promoted projects for both community development and redevelopment since the previous evaluation. As of the evaluation date, the bank's portfolio contained 19 commercial loans to various municipalities in the delineated community. The bank also had four outstanding loans to various nonprofit entities in the delineated community. The bank has a significant amount of outstanding mortgage loans for disabled individuals who reside in the delineation.

The bank has several large new community development commitments. It has originated two community development loans for projects that are located outside the delineated community. The bank provided many SBA loans to small businesses in its delineated community since the previous evaluation. In addition, the bank has several credit relationships with borrowers participating in the City of Grand Forks Growth Fund Program. The bank also made several loans for business start-up purposes since the last evaluation.

The bank is a participant in the Federal Home Loan Bank ("FLHB") Affordable Housing Program. As a participant in this program, the bank handles the funds for a local construction project to build housing for very low-income individuals. The bank monitors and disburses the FHLB grant money used to fund the project. Once construction is complete, the project will obtain a long-term loan from the Department of Housing and Urban Development.

The bank also continues to provide substantial support for local organizations through extensive donations of money and employee assistance. During 1995, the bank donated significant funds to local civic, charitable, and religious organizations. In addition, the bank directs charitable petitions through sponsorship of grant requests to the Otto Bremer Foundation.

The bank purchases municipal bonds from local communities within its delineation. At the time of the evaluation, the bank maintained a large amount of local bonds in its investment portfolio. The bank bids on all local bond issues.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

The bank's financial condition and size allow it to effectively meet the credit needs of its delineated community. The city of Grand Forks,

North Dakota, is located on the border of North Dakota and Minnesota about 75 miles south of the Canadian border. According to the 1990 U.S. census, the city of Grand Forks has 49,425 residents, with 70,683 individuals residing in Grand Forks County. East Grand Forks, Minnesota, has a population of 8,658. There are two major contributing factors to the local area economy. First, Grand Forks is the site of the Base, which has a total population of approximately 10,000. Since the previous evaluation, the Base has undergone staffing reductions as partial operations were transferred to other facilities in the country. As a result, the Base lost approximately 1,500 individuals. Second, Grand Forks is home to the University of North Dakota. The college campus has approximately 11,000 students.

The local area economy is geared primarily toward agricultural production, specifically crops. According to local contacts, the area's primary crops are sugar beets and potatoes. Livestock production is practically nonexistent in the surrounding farming area. Grand Forks is the largest city in the delineated community and serves as a major retail and service center for a large section of northeastern North Dakota and northwestern Minnesota.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

The bank is willing to participate in all viable development projects and otherwise meet the credit needs of its community.