



**LARGE BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

**PUBLIC DISCLOSURE**

January 28, 2013

**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

Minneapolis Field Office  
222 South Ninth Street, Suite 800  
Minneapolis, MN 55402-3393

**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>OVERALL CRA RATING .....</b>	<b>2</b>
<b>DEFINITIONS AND COMMON ABBREVIATIONS .....</b>	<b>3</b>
<b>DESCRIPTION OF INSTITUTION .....</b>	<b>7</b>
<b>SCOPE OF THE EVALUATION.....</b>	<b>8</b>
<b>FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW .....</b>	<b>9</b>
<b>STATE RATING .....</b>	<b>10</b>
STATE OF NORTH DAKOTA .....	10
STATE OF MINNESOTA.....	10
STATE OF ARIZONA.....	24
<b>APPENDIX A: SCOPE OF EXAMINATION.....</b>	<b>A-1</b>
<b>APPENDIX B: SUMMARY OF STATE RATINGS.....</b>	<b>B-1</b>
<b>APPENDIX C: MARKET PROFILES FOR FULL-SCOPE AREAS .....</b>	<b>C-1</b>
<b>APPENDIX D: TABLES OF PERFORMANCE DATA .....</b>	<b>D-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** (Alerus) with respect to the Lending, Investment, and Service Tests:

Performance Levels	Alerus Financial, National Association Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve		X	
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’ Lending Test is good. The bank’s lending activity is good in the states of North Dakota, Minnesota, and Arizona. Lending within the bank’s assessment areas is good with 85% of all bank loans made in these areas.
- The bank provides a low volume of qualified investments in each of the assessment areas resulting in poor performance under the Investment Test. The qualified investments made, are primarily charitable contributions that assist with the needs of low- and moderate-income individuals and support economic development.
- Alerus’ performance under the Service Test is good. The bank’s delivery systems are readily accessible to low- and moderate-income individuals and geographies. Bank employees in the Fargo and Minneapolis MSA assessment areas are involved in a good level of service that addresses the needs of low- and moderate-income individuals. This level is adequate in the Grand Forks and Phoenix MSA assessment areas.

## 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.

**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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development.

Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**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 householder' 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 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 statistical 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). Beginning in 2004, the reports also include data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100% 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% of the area median income, or a median family income that is less than 50%, 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 metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

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

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

**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 at least 120% of the area median income, or a median family income that is at least 120%, in the case of a geography.

## Description of Institution

Alerus Financial, National Association (Alerus) is an interstate bank headquartered in Grand Forks, North Dakota. The bank is wholly-owned by Alerus Financial Corporation (Alerus FC) of Grand Forks, ND which had total assets of \$1.193 billion as of June 30, 2012 and is also located in Grand Forks, ND.

Alerus is a full-service commercial bank offering a variety of loan and deposit products. The North Dakota and Minnesota assessment areas (AA) focus on both commercial and residential real estate lending while the Arizona AA has a commercial focus. Alerus has three operating subsidiaries. Alerus Securities Corporation provides brokerage and investment services; Alerus Financial Insurance Services provides insurance products and services to customers and Alerus Investment Advisory Services is a registered investment agency. The bank did not elect to have affiliate activity considered in this evaluation.

As of June 30, 2012, Alerus had fifteen locations in North Dakota, Minnesota and Arizona. The main office and four branches are located in the Grand Forks Metropolitan Statistical Area (MSA). The Fargo MSA had five branches, the Minneapolis MSA had three branches, and the Phoenix MSA had two branches.

In May 2009, Alerus entered the Phoenix, Arizona market by purchasing a branch of Meridian Bank, N.A. In December 2009, Alerus acquired Prosperan Bank in Oakdale, MN. The acquisition added two branches to Alerus' presence in the Minneapolis MSA. Also in November 2009, Alerus acquired Residential Mortgage Group (RMG) in Minnetonka, MN. RMG was renamed Alerus Mortgage at that time. In 2011, the bank purchased loans and deposits from BNCCorp in Scottsdale, AZ.

As of June 30, 2012, Alerus had \$1.191 billion in total assets. Net loans and leases represent 64% of total assets. The loan portfolio is primarily comprised of 63% commercial loans, 6% agricultural loans, 26% one-to-four family residential real estate loans, and 5% consumer loans. Tier One Capital is \$110 million or 9.23% of total assets.

There are no known financial, legal, or other factors that impede Alerus' ability to help meet the credit needs of its AA.

Alerus received a Satisfactory rating at the last CRA examination dated November 23, 2009.



## Scope of the Evaluation

### Evaluation Period/Products Evaluated

We evaluated Alerus' small business, small farm and home mortgage data for the period beginning July 1, 2009 through December 31, 2011. Products reviewed in the Lending Test include home mortgage, small business, and small farm loans. We used 2011 peer lending data for home mortgage loans and small business and farm loans to compare Alerus' lending performance to other reporting lenders in the AAs. All HMDA loans were evaluated using 2000 census data.

Home mortgage loans represent the largest portion of lending activity during the evaluation period with 5,927 originations totaling \$1.169 billion. These account for 83% by number and dollar volume of loans evaluated. Small loans to businesses during the same timeframe accounted for 1,025 loans totaling \$216 million or 15% of loan volume.

Home mortgage loans are the predominant loan products in the North Dakota and Minnesota AAs. In the North Dakota AA, home mortgage loans account for 63% of the total loans originated and 54% of the total dollar volume. In the Minnesota AA, home mortgage loans account for 95% of the total originations and 94% of the total dollar volume. In the Phoenix MSA the predominant product is small loans to businesses which account for 74% of total originations and 77% of the total dollar volume.

Community Development (CD) investments, services, and loans were evaluated from November 24, 2009 through June 30, 2012. Investment activity included grants and donations made by Alerus, particularly those that respond to the identified community needs. The Service Test is primarily based on the delivery of products and services within the AAs with additional consideration given to CD services provided by Alerus employees.

We used deposit information, reported to the Federal Deposit Insurance Corporation annually, to determine the bank's deposit market share and presence within each AA. The most recent deposit information available is as of June 30, 2012.

### Data Integrity

Prior to this evaluation, we conducted testing of the HMDA and small business and farm loan data collected and reported by Alerus. We found the information to be substantially accurate and were able to use it for this evaluation.

During this evaluation, we also reviewed loans, investments, and services presented by management with a primary purpose of community development. Those activities that meet the regulatory definition of community development were included in this evaluation.

### Selection of Areas for Full-Scope Review

All four of Alerus' AAs were selected for a full-scope review. The AAs include Grand Forks ND MSA, Fargo ND MSA, Minneapolis MN MSA, and Phoenix AZ MSA. Refer to the "Scope" section under each state rating for details regarding these areas.

## **Ratings**

Alerus' overall rating is a blend of the state ratings. We placed the most weight on the bank's performance in North Dakota because it represents 72% of the bank's deposit base and 35% of reported loan originations and purchases. The State of Minnesota has 24% of the deposit base and 64% of lending volume. The State of Arizona has 4% of the deposit base and 1% of the loan volume. Refer to the "Scope" section under each state rating for additional details.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## State Rating

### State of North Dakota

#### CRA Rating for North Dakota<sup>1</sup>: Low Satisfactory

The lending test is rated: **High Satisfactory**

The investment test is rated: **Needs to Improve**

The service test is rated: **High Satisfactory**

The major factors that support this rating:

- Alerus' lending in the Grand Forks MSA and Fargo MSA AA is good. This is based on good distribution of loans to individual and businesses of different income levels. In addition, the distribution of loans in low- and moderate-income geographies is good in the Fargo MSA AA. Alerus made the majority of loans in one of these AA in the State of North Dakota.
- Alerus has a poor level of qualified investments in both North Dakota assessment areas given the bank's resources and capacity.
- Alerus performance under the Service Test in North Dakota is demonstrated by good accessibility to products and services and a good level of community development services.

### Description of Institution's Operations in North Dakota

Alerus' operations include the MSAs of Grand Forks and Fargo, North Dakota. The Grand Forks MSA AA includes Grand Forks County in North Dakota and portions of Polk County in Minnesota. This AA contains the main office, four branch locations, and nine ATMs. The Fargo MSA AA includes Cass County in North Dakota and portions of Clay County in Minnesota. This AA has five branch locations and seven ATMs. All branches are located in North Dakota.

The activity in the Grand Forks MSA AA accounts for 46% of the bank's total deposits and 19% of total loan originations. Home mortgage loans are the primary credit product representing 67% by number and 59% by dollar, of all loan origination in the Grand Forks MSA AA.

The activity in the Fargo MSA AA accounts for 26% of the bank's total deposits and 16% of total loan originations. Home mortgage loans are the primary credit product representing 60% by number and 48% by dollar, of all loan origination in the Fargo MSA AA.

Alerus has strong competition in both North Dakota AAs. In the Grand Forks MSA AA, there are 21 financial institutions. Based on the FDIC Summary of Deposit report dated June 30, 2012, Alerus ranked second with a deposit market share of 19.12% behind Bremer Bank with a market share of 24.78%. In the Fargo MSA AA, there are 29 financial institutions. Alerus has the sixth largest market

---

<sup>1</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area.

share at 4.75% behind State Bank and Trust, Wells Fargo Bank, US Bank, Bremer Bank, and Gate City Bank.

Refer to the Market Profiles for the State of North Dakota in Appendix C for detailed demographics and other performance context information for AAs that received full-scope reviews.

## **Scope of Evaluation in North Dakota**

We selected both the Grand Forks MSA and the Fargo MSA AAs for full-scope reviews based on the meaningful volume of deposit and lending activity in both areas. Home mortgage loans are the primary product for both AAs during this evaluation period.

Due to the minimal volume of multi-family housing loans originated in both AAs, analysis on this product was not conducted as it would not be meaningful. However, the numbers are included in Table 5.

We considered information from community organizations to determine the primary credit needs of the AAs. In the Grand Forks MSA AA, affordable housing and small business loans were identified as primary credit needs. In the Fargo MSA AA, small business loans were the primary credit need.

Refer to the market profiles for the State of North Dakota in Appendix C for detailed demographics and other performance context information for assessment areas that received full-scope reviews.

## **LENDING TEST**

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

The bank's performance under the Lending Test in North Dakota is rated "High Satisfactory". Based on full-scope reviews, the bank's performance in the Grand Forks MSA and the Fargo MSA is good.

### **Lending Activity**

Refer to Table 1 Lending Volume in the State of North Dakota section of Appendix D for the facts and data used to evaluate the bank's lending activity.

The volume of lending in the Grand Forks MSA and Fargo MSA reflect good responsiveness to AA credit needs and as demonstrated by the bank's deposit market shares.

Alerus has the second largest deposit market share out of 21 financial institutions in the Grand Forks MSA AA, representing \$451 million or 19.12% of the total AA deposits. The bank originated 862 home mortgage loans totaling \$109 million during the evaluation period. Based on 2011 HMDA information, Alerus had 12.84% of the market share and ranked second out of 118 financial institutions that reported HMDA loans. The bank originated 324 small loans to businesses totaling over \$57 million and 107 small loans to farms totaling nearly \$20 million. Based on 2011 small business data, Alerus ranks third among 35 financial institutions reporting small loans to businesses and farms with an overall market share of 21.55%.

In the Fargo MSA AA, Alerus has the sixth largest market share out of 29 financial institutions. The bank has \$261 million in deposits representing 4.75% of the AA market share. The bank originated 704 home mortgage loans totaling nearly \$80 million. Alerus ranked sixth out of 155 financial institutions that reported HMDA loans with a market share of 2.77%. The bank also originated 426 small loans to businesses totaling \$79 million and 41 small loans to farms totaling \$6.5 million. In 2011, Alerus ranked seventh out of the 38 lenders reporting small loan information for businesses and farms. This represents 8.79% of this AA's market share.

For the Lending Test in the Grand Forks MSA AA, home mortgage loans account for 67% of total loans originated, and therefore, will receive the greatest weight in the analysis. Small loans to businesses account for 25% and small loans to farms account for 8% of total loans originated. For the home mortgage loan analysis, we placed the greatest weight on home refinance loans based on volume.

For the Fargo MSA AA Lending Test, home mortgage loans account for 60% of total loan originations. This is followed by small loans to businesses at 36% and small loans to farms at 4%. The greatest weight is placed on home mortgage loans due to volume, particularly home refinance loans.

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

### *Home Mortgage Loans*

Refer to Tables 2, 3, and 4 in the State of North Dakota section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations/purchases. Alerus originated a limited volume of multifamily housing loans during the evaluation period. Based on this low volume, a geographic analysis of these loans is not meaningful.

The geographic distribution of home mortgage loans in the Grand Forks MSA and Fargo MSA AAs reflects adequate penetration throughout their respective AAs.

### *Home Refinance Loans*

Alerus' geographic distribution of home refinance loans is adequate in the Grand Forks MSA and Fargo MSA AAs. The volume of refinance loans in both AAs is below the number of owner-occupied units in the moderate-income tracts. The bank did not originate any refinance loans in the low-income tract of the Grand Forks MSA AA. The Fargo MSA AA does not have any low-income geographies. The bank's market share is below the overall market share for home refinance loans in the moderate-income tracts in the Grand Forks MSA and slightly higher in the Fargo MSA.

### *Home Purchase Loans*

The geographic distribution of home purchase loans is good in the Grand Forks MSA AA. The number of home purchase loans in the moderate-income tracts of the Grand Forks MSA is comparable to the number of owner-occupied units in these areas. In addition, the bank's market share exceeds the overall market share of the AA. Alerus did not originate any home purchase loans in the low-income geography of this AA.

The geographic distribution of home purchase loans in the Fargo MSA AA is adequate. The bank originated a level below the number of owner-occupied units in the moderate-income census tracts (CT).

However, the bank's market share exceeds the overall market share of the AA. The Fargo MSA AA does not have any low-income CTs.

#### *Home Improvement Loans*

Alerus' geographic distribution of home improvement loans is adequate in the Grand Forks MSA. The volume of home improvement loans in low- and moderate-income tracts is somewhat below the demographics of the AA. In addition, the bank's market share is below the overall market share for the MSA.

Alerus' geographic distribution of home improvement loans is excellent in the Fargo MSA AA. The number of home improvement loans in the moderate-income geographies exceeds the number of owner-occupied units in these areas. In addition, Alerus' market share exceeds the overall market share of the AA. The Fargo AA does not have any low-income CTs.

#### *Small Loans to Businesses*

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

The geographic distribution of Alerus' small loans to businesses in the Grand Forks MSA AA is good. In the low-income geography, the volume of these loans is comparable to the number of businesses located this area. In addition, the bank's market share exceeds the overall market share in the low-income CT. The volume of small loans to businesses in the moderate-income tracts is somewhat lower than the small businesses located in these tracts. The bank's market share is also somewhat below the overall market share of the moderate-income tracts.

The geographic distribution of Alerus' small loans to businesses in the Fargo MSA AA is excellent. The bank originated a volume of loans to businesses in moderate-income tracts that exceeds the demographics of the area. In addition, the bank's market share exceeds the overall market share for moderate-income geographies. Alerus does not have any low-income CTs in this AA.

#### *Small Loans to Farms*

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

Alerus' geographic distribution of small loans to farms in the Grand Forks MSA AA is poor. During the evaluation period, the bank did not originate any small loans to farms in either the low- or moderate income CTs. This is mitigated due to these geographies having only seven farms.

Alerus' geographic distribution of small loans to farms in the Fargo MSA AA is good. Although the volume of bank originations of these loans is below the demographics in the moderate-income tracts, the bank's market share exceeds the overall market share of the area. The Fargo MSA AA does not have any low-income geographies.

### ***Lending Gap Analysis***

Our geographic distribution analysis included a review of lending gaps, particularly in low- and moderate-income areas. We did not identify any conspicuous gaps in the Grand Forks MSA or the Fargo MSA AAs.

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

In the State of North Dakota, Alerus originated or purchased a majority of loans in one of its designated AAs. A total of 84% of all loans were originated or purchased within the AAs. By product type, 80% of home loans and 91% of small loans to businesses and farms were originated within the AAs. This has a positive impact on the geographic distribution portion of the Lending Test.

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

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

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

The distribution of borrowers of home mortgage loans reflects adequate penetration in the Grand Forks MSA AA and good penetration in the Fargo MSA AA among customers of different income levels.

#### ***Home Refinance Loans***

Alerus' distribution of home refinance loans to borrowers of different income levels is adequate in the Grand Forks MSA AA. The percentage of refinance loans in this AA is somewhat below the number of low- and moderate-income families. The bank's market share is slightly below the overall market share for home refinance loans in the Grand Forks MSA AA.

Alerus' distribution of home refinance loans to borrowers of different income levels is good in the Fargo MSA AA. The volume of refinance home loans is comparable to the level of moderate-income families in the AA and below the number of low-income families in the AA. The bank's performance considers the higher degree of difficulty low-income borrowers have in qualifying for home mortgage loans.

#### ***Home Purchase Loans***

The borrower distribution of home purchase loans is excellent in the Grand Forks MSA and Fargo MSA AAs. The number of home purchase loans to moderate-income borrowers exceeds the percentage of moderate-income families in both AAs. Although the percentage of loans to low-income borrowers is below the demographics for the AAs, Alerus exceeds the overall market share for low-income families in both geographies.

#### ***Home Improvement Loans***

Alerus' distribution of home improvement loans to borrowers of different income levels is good in the Grand Forks MSA and Fargo MSA AAs. The volume of home improvement loans to moderate-income families exceeds the demographics of both AAs. The volume of these loans to low-income borrowers is lower than the percentage of low-income families in the AA. This is mitigated by the higher degree of difficulty these individuals have in qualifying for home mortgage loans. The bank's market share is

comparable to the overall moderate-income borrowers and below the lower-income borrowers in both AAs.

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

Refer to Table 11 in the State of North Dakota section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's origination and purchase of small loans to businesses.

The distribution of loans to small businesses in the Grand Forks MSA AA and Fargo MSA AA reflects adequate penetration among businesses of different sizes. In both AAs, Alerus' loans to small businesses (those with revenues of \$1 million or less) are below the percentage of these businesses in the AAs. The bank's market share is above the overall market share in both AAs.

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

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

Borrower distribution of loans to small farms in the Grand Forks MSA and Fargo MSA AAs reflects adequate penetration among farms of different sizes. In both AAs, Alerus' loans to small farms with revenues of \$1 million or less are below the percentage of these businesses in the AAs. Alerus' market share is comparable to the overall market share in both AAs.

## **Community Development Lending**

Refer to Table 1 Lending Volume in the State of North Dakota section of Appendix D for the facts and data used to evaluate the bank's level of community development (CD) 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, however.

CD Lending had a neutral impact in the Grand Forks MSA AA. Alerus originated one community development loan totaling \$576 thousand. This represents 1.15% of the AA's allocated Tier One Capital.

Alerus did not originate any qualifying community development loans in the Fargo MSA AA during the evaluation period.

## **Product Innovation and Flexibility**

Alerus offers various lending programs with flexible features to help meet the needs of the AA. These programs include the Home Access program, ND First Time Home Buyer program, and down payment assistance programs to assist home mortgage consumers.



## **INVESTMENT TEST**

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

The bank's performance under the Investment Test in North Dakota is rated "Needs to Improve". Based on full-scope reviews, the bank's performance in both the Grand Forks MSA and Fargo MSA AAs is poor.

Alerus' level of investments is poor in the Grand Forks MSA AA given the bank's opportunities for investment in the AA. Alerus made 52 qualified grants and donations totaling \$195 thousand during the evaluation period. This equates to 0.39% of the bank's allocated Tier One Capital for the AA.

In the Fargo MSA AA, Alerus' level of investments is poor given the bank's opportunities for investment in the AA. Alerus made 40 qualified grants and donations totaling \$87 thousand during the evaluation period. In addition, the bank had one prior period investment with an outstanding balance of \$250 thousand on June 30, 2012. The combined investments equate to 1.16% of the bank's allocated Tier One Capital for this AA.

The bank's qualified investments consisted primarily of charitable contributions to various organizations that provide community services to low- and moderate-income individuals and support activities that promote economic development.

In addition to the AA qualified investments, Alerus had one current period statewide investment and three prior period statewide investments with an outstanding balance of \$987 thousand as of June 30, 2012. These investments benefit small business development throughout the state of North Dakota and portions of Minnesota.

Refer to Table 14 in the State of North Dakota section of Appendix D for the facts and data used to evaluate the bank's level of qualified investments.

## **SERVICE TEST**

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

The bank's performance under the Service Test in North Dakota is rated "High Satisfactory". Based on full-scope reviews, the bank's performances in the Grand Forks MSA and Fargo MSA AAs are good.

### **Retail Banking Services**

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

Alerus' services do not vary in a way that inconveniences low- or moderate-income individuals or persons living in low- or moderate-income CTs. The bank offers extended hours at four Fargo MSA locations and one Grand Forks MSA location. Saturday hours and extended drive-up hours are offered at most branch locations. These services enhance the accessibility of the branches.

Alerus operates five locations in the Grand Forks MSA AA. Four locations are in the city of Grand Forks and one is in Northwood, ND. All locations are in middle-income geographies. Alerus operates nine ATMs in the AA with five being full-service. One ATM is located in a low-income CT with the remaining ATMs in middle- or upper-income tracts. The ATM located in the low-income tract is full-service.

The Fargo MSA AA has five branch locations. One branch is in a moderate-income tract, two are in middle-income tracts and two are in upper-income tracts. Alerus operates seven ATMs in the AA with four being full-service. One is located in a moderate-income, four are in middle-income and two are in upper-income geographies. The ATM located in the moderate-income tract is full-service.

Alerus' record of opening and closing branches did not have an impact on the Service Test during the evaluation period for the Grand Forks MSA and Fargo MSA AAs. The bank did not open any branches in either of these AAs and one branch was closed in the Fargo MSA AA which was located in an upper-income geography.

Alerus' branch and ATM services are supplemented by other alternative delivery systems. These systems include free telephone banking, internet and mobile banking, debit cards, and checking accounts with no minimum balances. The bank also offers remote deposit capture for business owners. In addition, the bank offers checking accounts targeted to individuals with a history of financial difficulties. During the evaluation period, Alerus began offering online deposit account opening. This enhances the accessibility of services by eliminating the need for physical access to a branch location.

### **Community Development Services**

Alerus' level of CD services is adequate in the Grand Forks MSA AA and good in the Fargo MSA AA. This assessment is based on the opportunities in the AAs and the type of organizations that benefit from the services provided.

In the Grand Forks MSA AA, 13 employees provided their financial expertise and services to 13 different community development organizations. Eight of these employees served in a leadership capacity. These organizations provide a variety of services to low- and moderate-income individuals, support affordable housing, and promote economic development.

In the Fargo MSA AA, eleven employees worked with twelve different community development organizations. Nine of these employees served in a leadership capacity. The organizations provide a variety of services to low- and moderate-income individuals, support affordable housing and promote economic development.

Alerus offers a Connect with Community program to their employees. This program allows bank employees to donate six hours of paid time off per year to volunteer at charitable organizations of their choice.

## State of Minnesota

### **CRA Rating for Minnesota<sup>2</sup>: Low Satisfactory**

**The lending test is rated: High Satisfactory**

**The investment test is rated: Needs to Improve**

**The service test is rated: High Satisfactory**

The major factors that support this rating include:

- Alerus' lending in the Minneapolis MSA assessment area is good. This is based on good distribution of loans to individuals and businesses of different income levels and in low- and moderate-income geographies. Alerus made the majority of loans in its designated assessment area in the State of Minnesota.
- Alerus has a poor level of qualified investments in the State of Minnesota given the bank's resources and capacity.
- Alerus performance under the Service Test in Minnesota is demonstrated by good accessibility to products and services and a good level of community development services.

## Description of Institution's Operations in Minnesota

Alerus' operations include a portion of the Minneapolis MSA. This AA includes the counties of Anoka, Dakota, Carver, Hennepin, Ramsey and Washington. The AA consists of 668 census tracts including 47 low-income and 141 moderate-income geographies. Alerus has three branches and two ATMs in the Minneapolis MSA AA.

The activity in the Minneapolis MSA AA accounts for 24% of the bank's total deposits and 64% of total loan originations. Home mortgage loans are the primary credit product representing 94% by dollar and 95% by number, of all loan originations.

There is strong competition with 127 financial institutions having a presence in the AA. Based on the FDIC Summary of Deposit report dated June 30, 2012, Alerus ranked as the 26<sup>th</sup> largest with a deposit market share of 0.16%. Wells Fargo Bank and US Bank hold the largest deposit market share with 51.35% and 27.99%, respectively.

Refer to the Market Profiles for the State of Minnesota in Appendix C for detailed demographics and other performance context information for the Minneapolis MSA AA.

---

<sup>2</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area.

## **Scope of Evaluation in Minnesota**

We selected the Minneapolis MSA AA for a full-scope review based on the volume of deposit and lending activity. The primary products during this evaluation period were home purchase and home refinance loans. Due to the acquisition of Residential Mortgage Group (RMG), home mortgage loans accounted for the majority of all loan originations.

Due to the minimal number of farm and multi-family housing loans originated in Minnesota, an analysis was not conducted as it would not be meaningful. However, the numbers are included in Tables 5 and 7 for the Minneapolis MSA AA.

We considered information from community organizations to determine the primary needs of the AA. In the Minneapolis MSA AA, affordable housing was identified as the primary credit need.

Refer to the market profiles for the State of Minnesota in Appendix C for detailed demographics and other performance context information for assessment areas that received full-scope reviews.

## **LENDING TEST**

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

The bank's performance under the Lending Test in Minnesota is rated "High Satisfactory". Based on full-scope reviews, the bank's performance in the Minneapolis MSA AA is good.

### **Lending Activity**

Refer to Table 1 Lending Volume in the State of Minnesota section of Appendix D for the facts and data used to evaluate the bank's lending activity.

The volume of lending in the Minneapolis MSA reflects excellent responsiveness to AA credit needs and as demonstrated by the bank's deposit market shares.

Alerus has the 26th largest deposit market share out of 127 financial institutions in the Minneapolis MSA AA, representing \$238 million or 0.16% of the total AA deposits. The bank originated 4,339 home mortgage loans totaling \$975 million during the evaluation period. Based on 2011 HMDA information, Alerus had 2.01% of the market share and ranked 13<sup>th</sup> out of 598 financial institutions that reported HMDA loans. The bank originated 203 small loans to businesses totaling \$58 million and two small loans to farms totaling \$551 thousand. Based on 2011 small business data, Alerus ranks 22<sup>nd</sup> with an overall market share of 2.06%, among 114 financial institutions reporting small loans to businesses and farms.

For the Lending Test, home mortgage loans account for 95% of total loans originated, and therefore, will receive the greatest weight in the analysis. Small loans to businesses account for 5% of total loans originated. For the home mortgage loan analysis, we placed the greatest weight on home refinance loans

followed by home purchase loans, based on volume. We considered the AA poverty rate of 11% in our analysis, particularly for home mortgage loans.

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

#### *Home Mortgage Loans*

Refer to Tables 2, 3, and 4 in the State of Minnesota section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations/purchases. Alerus originated a limited volume of small loans to farms and multifamily housing loans during the evaluation period. Based on the low volume a geographic analysis of these loans was not conducted as this would not be meaningful.

The geographic distribution of home mortgage loans in the Minneapolis MSA AA reflects good penetration throughout the AA.

#### *Home Refinance Loans*

Alerus' geographic distribution of home refinance loans is adequate in the Minneapolis MSA AA. The volume of refinance loans is below the number of owner-occupied units in both the low- and moderate-income tracts. The bank's market share is slightly below the overall market share for home refinance loans in the low- and moderate-income tracts in the Minneapolis MSA AA.

#### *Home Purchase Loans*

The geographic distribution of home purchase loans is excellent in the Minneapolis MSA AA. The number of home purchase loans in the low-income tracts exceeds the number of owner-occupied units and is comparable in the moderate-income tracts of the Minneapolis MSA. In addition, the bank's market share in the low-income geographies exceeds the overall market share of the AA.

#### *Home Improvement Loans*

Alerus' geographic distribution of home improvement loans is excellent in the Minneapolis MSA. The volume of home improvement loans in low-income tracts is below the demographics of the AA but exceeds the percentage of owner-occupied units in the moderate-income tracts. In addition, the bank's market share in the moderate-income geographies is above the overall market share for the MSA.

#### *Small Loans to Businesses*

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

The geographic distribution of Alerus' small loans to businesses in the Minneapolis MSA AA is excellent. In the low-income geography, the volume of these loans is slightly below the number of businesses located in these areas. However, the volume of small loans to businesses in the moderate-income geographies exceeds the number of businesses located in these tracts. Alerus' market share is comparable to the overall market share in the low-income CTs and exceeds the overall market share in the moderate-income geographies.

#### *Lending Gap Analysis*

Our geographic distribution analysis included a review of lending gaps, particularly in low- and moderate-income areas. We did not identify any conspicuous gaps in the Minneapolis MSA AA.

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

In the State of Minnesota, Alerus originated or purchased a majority of loans in its designated AA. A total of 86% of all loans were originated or purchased within the AA. By product type, 86% of home loans and 80% of small loans to businesses were originated in the AA. This has a positive impact on the geographic distribution portion of the Lending Test.

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

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

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

The distribution of borrowers of home mortgage loans reflects excellent penetration in the Minneapolis MSA AA among customers of different income levels.

### ***Home Refinance Loans***

Alerus' distribution of home refinance loans to borrowers of different income levels is good in the Minneapolis MSA AA. The percentage of refinance loans in this AA is below the number of low-income families but comparable to the moderate-income families. The bank's low- and moderate-income market shares are comparable to the overall market share for home refinance loans in the Minneapolis MSA AA.

### ***Home Purchase Loans***

The borrower distribution of home purchase loans is excellent in the Minneapolis MSA AA. The number of home purchase loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. The number of these loans to low-income borrowers is comparable to the demographics of the AA. Alerus' market share is slightly below the overall market share for the low-income families and is comparable to the moderate-income families.

### ***Home Improvement Loans***

Alerus' distribution of home improvement loans to borrowers of different income levels is excellent in the Minneapolis MSA AA. The percentage of home improvement loans to low- and moderate-income families exceeds the demographics of the AA. The bank's market share of moderate-income families exceeds the overall market share of the AA.

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

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

The distribution of loans to small businesses in the Minnesota MSA AA reflects adequate penetration among businesses of different sizes. In the AA, Alerus' loans to small businesses (those with revenues

of \$1 million or less) are below the percentage of these businesses in the AAs. However, the bank's market share is comparable to the overall market share of the AA.

### **Community Development Lending**

Refer to Table 1 Lending Volume in the State of Minnesota section of Appendix D for the facts and data used to evaluate the bank's level of community development (CD) lending. This table includes all CD loans, including multi-family 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, however.

CD Lending had a neutral impact in the Minneapolis MSA AA. Alerus originated one community development loan totaling \$148 thousand. This represents 0.56% of the AA's allocated Tier One Capital.

### **Product Innovation and Flexibility**

Alerus offers various lending programs with flexible features to help meet the needs of the AA. These programs include Minnesota housing programs and down payment assistance programs to assist home mortgage consumers.

## **INVESTMENT TEST**

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

The bank's performance under the Investment Test in Minnesota is rated "Needs to Improve". Based on a full-scope review, the bank's performance in the Minneapolis MSA is poor.

Alerus' level of investments is poor in the Minneapolis MSA AA given the bank's opportunities for investment in the AA. Alerus made 36 qualified grants and donations totaling \$211 thousand during the evaluation period. This equates to 0.80% of the bank's allocated Tier One Capital for the AA.

The bank's qualified investments consisted primarily of charitable contributions to various organizations that provide community services and affordable housing to low- and moderate-income individuals.

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

## **SERVICE TEST**

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

The bank's performance under the Service Test in Minnesota is rated "High Satisfactory." Based on full-scope reviews, the bank's performance in the Minneapolis MSA AA is good.

## **Retail Banking Services**

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

Alerus' services do not vary in a way that inconveniences low- or moderate-income individuals or persons living in low- or moderate-income areas. The bank offers extended drive-up hours in all three Minneapolis locations and Saturday hours at two of these locations. These services enhance the accessibility of the branches.

Alerus operates three locations in the Minneapolis MSA AA. Two locations are in middle-income geographies and one is in an upper-income tract. Alerus also has two cash dispensing ATMs, both in middle-income CTs in the AA. Branch locations are in close proximity and easily accessible to several moderate-income tracts.

Alerus' branch and ATM services are supplemented by other alternative delivery systems. These systems include telephone, internet and mobile banking, free debit cards and checking accounts with no minimum balances. In addition, the bank offers checking accounts targeted to individuals with a history of financial difficulties. During the evaluation period, Alerus began offering online deposit account opening. This enhances the accessibility of services by eliminating the need for physical access to a branch location.

## **Community Development Services**

Alerus' level of community development services is good in the Minneapolis MSA AA. This assessment is based on the opportunities in the AA and the type of organizations that benefit from the services provided.

In the Minneapolis MSA AA, ten employees provided their financial expertise and services to 17 different community development organizations. Six of these employees served in a leadership capacity. These organizations provide a variety of services to low- and moderate-income individuals, support affordable housing and promote economic development.

Alerus offers a Connect with Community program to their employees. This program allows bank employees to donate six hours of paid time off per year to volunteer at charitable organizations of their choice.



## State of Arizona

### CRA Rating for Arizona<sup>3</sup>: Low Satisfactory

**The lending test is rated: High Satisfactory**

**The investment test is rated: Needs to Improve**

**The service test is rated: Low Satisfactory**

The major factors that support this rating include:

- Alerus' lending in the Phoenix MSA assessment area is good. This is based on an adequate distribution of loans to individuals and businesses of different income levels and a good distribution of loans in low- and moderate-income geographies. Alerus made the majority of loans in its designated assessment area in the State of Arizona.
- Alerus has a poor level of qualified investments in the State of Arizona given the bank's resources and capacity.
- Alerus' performance under the Service Test in Arizona is demonstrated by adequate accessibility to products and services and an adequate level of community development services.

## Description of Institution's Operations in Arizona

Alerus' operations include a portion of the Phoenix MSA AA. Alerus' AA includes Maricopa County which consists of 663 census tracts, including 40 low-income and 181 moderate-income geographies. Alerus has two branches and one ATM in the Phoenix MSA AA.

The activity in the Phoenix MSA AA accounts for 4% of the bank's total deposits and 1% of total loan originations. Small loans to businesses are the primary credit product representing 74% by number and 78% by dollar, of all loan origination in the Phoenix MSA AA.

Alerus has strong competition with 62 financial institutions located in the AA. Based on the FDIC Summary of Deposit report dated June 30, 2012, Alerus ranked 45<sup>th</sup> with a deposit market share of 0.07%. Wells Fargo Bank, JP Morgan Chase Bank, and Bank of America hold the largest market shares with 26.5%, 25.95% and 20.77% respectively.

Refer to the Market Profiles for the State of Arizona in Appendix C for detailed demographics and other performance context information for the Phoenix MSA AA.

---

<sup>3</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

## **Scope of Evaluation in Arizona**

We selected the Phoenix MSA AA for a full-scope review based on the volume of deposit and lending activity. The primary product during this evaluation period was small business loans which accounted for 74% of the number of originations and 77% of the dollar volume.

Due to the minimal volume of home improvement, multi-family housing and farm loans originated in Phoenix, an analysis was not conducted as it would not be meaningful. However, the numbers are included in Tables 3, 5, and 7 for the Phoenix MSA AA.

We considered information from community organizations to determine the primary credit needs of the AA. In the Phoenix MSA AA, affordable housing and small business loans to help revitalize distressed communities were identified as primary credit needs.

Refer to the Market Profiles for the State of Arizona in Appendix C for detailed demographics and other performance context information for assessment areas that received full-scope reviews.

## **LENDING TEST**

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

The bank's performance under the Lending Test in Arizona is rated "High Satisfactory". Based on full-scope reviews, the bank's performance in the Phoenix MSA AA is good.

### **Lending Activity**

Refer to Table 1 Lending Volume in the State of Arizona section of Appendix D for the facts and data used to evaluate the bank's lending activity.

The volume of lending in the Phoenix MSA reflects good responsiveness to AA credit needs and as demonstrated by the bank's deposit market shares.

Alerus is ranked 45th out of 62 financial institutions for deposit market share in the Phoenix MSA AA, representing \$42 million or 0.07% of the total AA deposits. The bank originated 22 home mortgage loans totaling \$5 million during the evaluation period. Based on 2011 HMDA information, Alerus had 0.01% of the market share and ranked 256 out of 699 financial institutions that reported HMDA loans. The bank originated 72 small loans to businesses totaling \$22 million and three small loans to farms totaling \$1.1 million. Based on 2011 small business data, Alerus ranked 31st among 165 financial institutions reporting small loans to businesses and farms with an overall market share of 0.87%.

For the Lending Test, small loans to businesses account for 74% of total loans originated, and therefore, will receive the greatest weight in the analysis. Home mortgage loans represent 23% of total loans originated. For the home mortgage loan analysis, we placed the greatest weight on home refinance loans

followed by home purchase loans, based on volume. We considered the AA poverty rate of 9.65% in our analysis, particularly for home mortgage loans.

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

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

Refer to Tables 2 and 4 in the State of Arizona section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations/purchases. Alerus originated a limited volume of small loans to farms, multi-family housing loans, and home improvement loans during the evaluation period. Based on the low volume, a geographic analysis of these loans was not conducted as this would not be meaningful.

The geographic distribution of home mortgage loans in the Phoenix MSA AA reflects very poor penetration throughout the AA.

### ***Home Refinance Loans***

Alerus' geographic distribution of home refinance loans is very poor in the Phoenix MSA AA. The bank did not originate any refinance loans in the low- or moderate-income tracts. The bank's volume of these loans was low at fourteen total home refinance loans.

### ***Home Purchase Loans***

The geographic distribution of home purchase loans is very poor in the Phoenix MSA AA. Alerus did not originate any home purchase loans in the low- or moderate-income tracts of the Phoenix MSA. The bank's volume of these loans was low at six total home purchase loans.

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

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

The geographic distribution of Alerus' small loans to businesses in the Phoenix MSA AA is excellent. In the low- and moderate-income geographies, the volume of these loans is above the number of businesses located in these areas. Alerus' market share is comparable to the overall market share in the low-income CTs and exceeds the overall market share in the moderate-income geographies.

### ***Lending Gap Analysis***

Our geographic distribution analysis included a review of lending gaps, particularly in low- and moderate-income areas. We did not identify any conspicuous gaps in the Phoenix MSA AA.

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

In the State of Arizona, Alerus originated or purchased a majority of loans in its designated AA. A total of 85% of all loans were originated or purchased within the AA. By product type, 56% of home loans and 100% of small loans to businesses were originated in the AA. This has a positive impact on the geographic distribution portion of the Lending Test.

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

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

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

The distribution of home mortgage loans to borrowers reflects excellent penetration in the Phoenix MSA AA among customers of different income levels.

### ***Home Refinance Loans***

The borrower distribution of home purchase loans is good in the Phoenix MSA AA. The number of home purchase loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. The number of these loans to low-income borrowers is somewhat lower than the demographics of the AA. Alerus' market share is above the overall market share for the moderate-income families in the Phoenix AA.

### ***Home Purchase Loans***

Alerus' distribution of home refinance loans to borrowers of different income levels is good in the Phoenix MSA AA. The percentage of refinance loans in this AA is near the number of low- and moderate-income families. The bank's market share to low-income borrowers is above the overall market share for home refinance loans in the Phoenix MSA AA.

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

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

The distribution of loans to small businesses in the Arizona MSA AA reflects poor penetration among businesses of different sizes. In the AA, Alerus' loans to small businesses (those with revenues of \$1 million or less) are lower than the percentage of these businesses in the AAs. The bank's market share is slightly below the overall market share of the AA.

## **Product Innovation and Flexibility**

Alerus offers various lending programs with flexible features to help meet the needs of the AA. These programs include the Home Access program and down payment assistance programs to assist home mortgage consumers.

## **INVESTMENT TEST**

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

The bank's performance under the Investment Test in Arizona is rated "Needs to Improve". Based on a full-scope review, the bank's performance in the Phoenix MSA is poor.

Alerus' level of investments is poor in the Phoenix MSA AA given the bank's opportunities for investment in the AA. Alerus made four qualified grants and donations totaling \$8 thousand during the evaluation period. This equates to 0.17% of the bank's allocated Tier One Capital for the AA.

The bank's qualified investments consisted of charitable contributions to organizations that provide community services to low- and moderate-income individuals.

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

## **SERVICE TEST**

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

The bank's performance under the Service Test in Arizona is rated "Low Satisfactory." Based on full-scope reviews, the bank's performance in the Phoenix MSA AA is adequate.

### **Retail Banking Services**

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

Alerus' services do not vary in a way that inconveniences low- or moderate-income individuals or persons living in low- or moderate-income areas. The bank offers extended drive-up hours in both Phoenix locations. These services enhance the accessibility of the branches.

Alerus operates two locations in the Phoenix MSA AA. Both locations are in upper-income tracts. Alerus also has one full-service ATM in the AA. One branch location is in close proximity and easily accessible to several moderate-income tracts.

Alerus' branch and ATM services are supplemented by other alternative delivery systems. These systems include telephone, internet and mobile banking, free debit cards, and checking accounts with no minimum balances. In addition, the bank offers checking accounts targeted to individuals with a history of financial difficulties. During the evaluation period, Alerus began offering online deposit account

opening. This enhances the accessibility of services by eliminating the need for physical access to branch locations.

## **Community Development Services**

Alerus' level of community development services is adequate in the Phoenix MSA AA. This assessment is based on the opportunities in the AAs and the type of organizations that benefit from the services provided.

In the Phoenix MSA AA, one employee provided their financial expertise and services to one community development organization in a leadership capacity. The organization provides services to low- and moderate-income individuals and families. The number of total Alerus employees in the Phoenix MSA AA is low.

Alerus offer a Connect with Community program to their employees. The program allows employees to donate six hours of paid time off per year to volunteer at charitable organizations of their choice.

## Appendix A: Scope of Examination

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 nonmetropolitan 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): 7/1/2009 to 12/31/2011 Investment and Service Tests and CD Loans: 11/24/2009 to 6/30/2012	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Alerus Financial, National Association (Alerus) Grand Forks, North Dakota	Home mortgage loans, small loans to businesses, small loans to farms, and community development loans, investments, and services	
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
State of North Dakota Grand Forks MSA AA #24220 Fargo MSA AA #22020  State of Minnesota Minneapolis MSA AA #33460  State of Arizona Phoenix MSA AA #38060	Full-Scope Full-Scope  Full-Scope  Full-Scope	

## Appendix B: Summary of State Ratings

---

RATINGS FOR ALERUS FINANCIAL, NA				
Overall Bank:	Lending Test Rating*	Investment Test Rating	Service Test Rating	Overall Bank/State
Alerus Financial, NA	High Satisfactory	Needs to Improve	High Satisfactory	Satisfactory
State:				
North Dakota	High Satisfactory	Needs to Improve	High Satisfactory	Low Satisfactory
Minnesota	High Satisfactory	Needs to Improve	High Satisfactory	Low Satisfactory
Arizona	High Satisfactory	Needs to Improve	Low Satisfactory	Low Satisfactory

(\*) The Lending Test is weighted more heavily than the Investment and Service tests in the overall rating.



## Appendix C: Market Profiles for Full-Scope Areas

### State of North Dakota

#### Grand Forks MSA AA

Demographic Information for Full-Scope Area: Alerus Fargo MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	27	3.70	7.41	70.37	18.52	0.00
Population by Geography	97,478	5.13	6.27	70.35	18.25	0.00
Owner-Occupied Housing by Geography	22,582	0.09	1.58	75.52	22.81	0.00
Businesses by Geography	10,461	2.34	3.17	70.60	23.89	0.00
Farms by Geography	1,030	0.10	0.58	79.51	19.81	0.00
Family Distribution by Income Level	23,881	17.59	19.53	25.02	37.85	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	8,866	4.15	8.82	77.22	9.81	0.00
Median Family Income	45,777	Median Housing Value				357
HUD Adjusted Median Family Income for 2011	63,800	Unemployment Rate (2000 US Census)				2.49%
Households Below Poverty Level	13%					

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2011 HUD updated MFI

The Grand Forks MSA AA consists of Grand Forks County in North Dakota and Polk County in Minnesota. The AA includes 27 CT, comprised of one low-income, two moderate-income, 19 middle-income, and five upper-income tracts. This AA includes the bank's main office plus four branch locations all in the State of North Dakota. There are nine ATMs throughout the AA including one in the low-income CT.

The University of North Dakota is the largest employer in the area, with 4,400 employees followed by Altru Health System and the Grand Forks Air Force Base with 3,900 and 2,200 employees, respectively. The Bureau of Labor Statistics reports an unemployment rate of 4.4% for the Grand Forks MSA as of December 31, 2011 compared to 3.5% statewide and 8.9% nationwide.

Competition in the AA is strong with twenty-one institutions in the Grand Forks MSA market. Alerus ranks second with a deposit market share of 19.12% or \$451 million as of June 30, 2012. Major competitors include Bremer Bank, N.A. and U.S. Bank, N.A. with 24.78% and 9.29% of the deposit market share, respectively.

Our evaluation included making contact with a community member to better understand the demographics and primary credit needs of the AA. Identified needs in the area include affordable housing and small business lending.

**Fargo MSA AA**

Demographic Information for Full-Scope Area: Alerus Fargo MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	40	0.00	15.00	72.50	12.50	0.00
Population by Geography	174,367	0.00	16.18	67.69	16.12	0.00
Owner-Occupied Housing by Geography	41,269	0.00	8.26	72.89	18.86	0.00
Businesses by Geography	22,004	0.00	22.48	58.95	18.56	0.00
Farms by Geography	1,229	0.00	5.37	83.08	11.55	0.00
Family Distribution by Income Level	42,527	17.69	18.73	26.50	37.08	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	15,492	0.00	17.58	72.43	9.99	0.00
Median Family Income	50,758	Median Housing Value				89,182
HUD Adjusted Median Family Income for 2011	69,400	Unemployment Rate (2000 US Census)				2.48%
Households Below Poverty Level	12%					

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2011 HUD updated MFI

The Fargo MSA AA consists of Cass County in North Dakota and Clay County in Minnesota. The AA includes 40 CT with six designated moderate-income, 29 middle-income, and five upper-income. This AA contains five bank branches with one in a moderate-income tract and seven ATMs, one in a moderate-income tract. All branch locations are in the State of North Dakota.

Major industries include manufacturing, business services, healthcare, and education. North Dakota State University and Minnesota State University-Moorhead are located in the AA and have a combined enrollment of over 21,000 students and combined employees of over 3,500. Other major employers include Sanford Health, Blue Cross-Blue Shield of North Dakota, Microsoft Corporation, and Case New Holland. The Bureau of Labor Statistics reports a December 31, 2011 unemployment rate of 3.7% which is comparable to the statewide rate of 3.5% and below the nationwide rate of 8.9%.

Competition in the AA is strong with 29 financial institutions in the Fargo MSA market. Alerus ranks sixth with a deposit market share of 4.75% or \$261 million as of June 30, 2012. Major competitors include State Bank & Trust, Wells Fargo, N.A., U.S. Bank, N.A., and Bremer Bank, N.A. with deposit market shares of 29.86%, 14.61%, 7.54%, and 6.47%, respectively.

Our evaluation included making contact with a community member to better understand the demographics and primary credit needs of the AA. The identified needs in the area include funding for small businesses.

**State of Minnesota**

**Minneapolis MSA**

Demographic Information for Full-Scope Area: Alerus Minneapolis MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	668	7.04	21.11	45.96	25.30	0.60
Population by Geography	2,552,558	5.30	18.91	48.16	27.54	0.09
Owner-Occupied Housing by Geography	702,526	1.76	14.77	52.30	31.16	0.00
Business by Geography	280,487	3.86	15.49	48.86	31.63	0.15
Farms by Geography	5,337	0.94	8.45	58.31	32.28	0.02
Family Distribution by Income Level	638,558	17.22	18.63	25.74	38.40	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	228,949	8.20	27.17	49.64	14.99	0.00
Median Family Income	64,885	Median Housing Value				145,801
HUD Adjusted Median Family Income for 2011	82,700	Unemployment Rate (2000 US Census)				2.02%
Households Below Poverty Level	7%					

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2011 HUD updated MFI

The Minneapolis MSA AA consists of the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, and Washington. The AA consists of 668 CT, comprised of 47 low-income tracts, 141 moderate-income tracts, 307 middle-income tracts, 169 upper-income tracts and four NA geographies. This AA contains three branches and two ATMs all in the State of Minnesota.

The largest employers are the Target Corporation with 30,500 employees and the University of Minnesota with 25,300 employees. An increase in employment in professional and business services, education and health services and government sectors occurred during the evaluation period. The Bureau of Labor Statistics reports an unemployment rate of 5.5% as of December 31, 2011 in the Minneapolis MSA compared to 6.4% statewide and 8.9% nationwide.

Competition in the AA is strong with 127 institutions in the Minneapolis MSA market. Alerus ranks 26<sup>th</sup> with a June 30, 2012 deposit market share of 0.16% or \$238 million. The top market share institutions are Wells Fargo, N.A. and U.S. Bank, N.A. with 51.35% and 27.99%, respectively.

Our evaluation included making contact with a community member to better understand the demographics and primary credit needs of the AA. The primary need was identified as affordable housing. The contact indicated that local banking institutions are taking advantage of opportunities to assist meeting the community needs.

**State of Arizona**

**Phoenix MSA AA**

Demographic Information for Full-Scope Area: Alerus Phoenix MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	663	6.03	27.30	34.69	31.37	0.60
Population by Geography	3,072,149	4.88	28.69	36.78	29.64	0.01
Owner-Occupied Housing by Geography	764,563	1.53	21.47	40.34	36.66	0.00
Business by Geography	464,595	3.55	17.80	32.48	46.10	0.07
Farms by Geography	7,678	2.25	19.71	36.19	41.81	0.04
Family Distribution by Income Level	768,800	19.09	18.51	21.75	40.65	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	289,057	7.44	41.75	36.25	14.56	0.00
Median Family Income	51,172	Median Housing Value				130,648
HUD Adjusted Median Family Income for 2011	65,500	Unemployment Rate (2000 US Census)				2.31%
Households Below Poverty Level	10%					

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 US Census and 2011 HUD updated MFI

The Phoenix MSA AA consists of the entire Maricopa County. The AA includes 663 CT which include 40 designated as low-income, 181 moderate-income, 230 middle-income, and 208 upper-income as well as four in NA geographies. This AA has two branch locations and one ATM all located in upper-income geographies.

The major employers in the Phoenix MSA AA are Wal-Mart Stores with 30 thousand employees, Banner Health Systems with 20 thousand employees, Wells Fargo & Co with 13 thousand employees, and Honeywell International Inc. with 12 thousand employees. During this evaluation period, the economic conditions in the MSA have improved with the most improvement in the professional and business services sectors. According to the Bureau of Labor Statistics, the December 31, 2011 unemployment rate was 7.9% which is below the statewide rate of 9.5% and the nationwide rate of 8.9%.

Competition in the AA is strong with sixty-two institutions in the Phoenix MSA. Alerus ranks 45<sup>th</sup> of those 62 with a market share of \$42 million or 0.07%. The three banks that dominate the local market share include Wells Fargo, N.A., JPMorgan Chase Bank, N.A., and Bank of America, N.A. with market shares of 26.5%, 25.95%, and 20.77%, respectively.

Our evaluation included making contact with a community member to better understand the demographics and primary credit needs of the AA. The primary needs identified were affordable housing and small business loans needed to revitalize distressed neighborhoods. The contact indicated that local banks are doing a good job of meeting the community’s credit needs.

## Appendix D: Tables of Performance Data

---

### Content of Standardized Tables

For purposes of reviewing the lending test tables, the following are applicable: (1) 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; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Deposit data are compiled by the FDIC and are available as of June 30<sup>th</sup> of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

- 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. See Interagency Q&As \_\_.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.
- 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)** - For geographic distribution, the table 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 households within each geography. For borrower distribution, the table 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 of households by income level in each MA/assessment area.
  
- 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. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.

**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.

## **Tables of Performance Data**

---

### **State of North Dakota**

Grand Fork MSA

Fargo MSA

### **State of Minnesota**

Minneapolis MSA

### **State of Arizona**

Phoenix MSA



**Table 1. Lending Volume**

LENDING VOLUME												
Geography: ALERUS FINANCIAL						Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011						
Assessment Area (2011):	% 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>												
Grand Forks MSA	18.20	862	109,226	324	57,495	107	19,620	0	0	1,293	186,341	46%
Minneapolis MSA	63.95	4,339	975,159	203	58,042	2	551	0	0	4,544	1,033,752	24%
Fargo Moorhead MSA	16.48	704	79,826	426	79,080	41	6,522	0	0	1,171	165,428	26%
Phoenix MSA	1.37	22	5,066	72	21,529	3	1,125	0	0	97	27,720	4%

\* Loan Data as of December 31, 2011. Rated area refers to either state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is from July 01, 2009 to December 31, 2011.

\*\*\* Deposit Data as of June 30, 2012. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE			Geography: ALERUS FINANCIAL				Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011					Market Share (%) by Geography*				
Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans						
<b>Full Review:</b>																
Grand Forks MSA	290	11.92	0.09	0.00	1.58	1.38	75.52	59.31	22.81	39.31	13.02	0.00	14.29	10.52	18.43	
Minneapolis MSA	1,903	78.25	1.76	2.94	14.77	13.03	52.30	44.88	31.16	39.15	2.41	3.58	2.15	2.11	2.94	
Fargo Moorhead MSA	233	9.58	0.00	0.00	8.26	6.01	72.89	55.79	18.86	38.20	3.57	0.00	4.42	2.97	4.43	
Phoenix MSA	6	0.25	1.53	0.00	21.47	0.00	40.34	50.00	36.66	50.00	0.00	0.00	0.00	0.00	0.00	

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* 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 units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

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

Geographic Distribution: HOME IMPROVEMENT			Geography: ALERUS FINANCIAL						Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011						
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	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA	117	53.42	0.09	0.00	1.58	0.85	75.52	57.26	22.81	41.88	22.12	0.00	0.00	20.71	25.33
Minneapolis MSA	8	3.65	1.76	0.00	14.77	25.00	52.30	37.50	31.16	37.50	0.12	0.00	0.23	0.13	0.09
Fargo Moorhead MSA	92	42.01	0.00	0.00	8.26	9.78	72.89	71.74	18.86	18.48	8.45	0.00	11.63	8.51	7.38
Phoenix MSA	2	0.91	1.53	0.00	21.47	50.00	40.34	50.00	36.66	0.00	0.15	0.00	0.68	0.21	0.00

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* 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 units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

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

Geographic Distribution: HOME MORTGAGE REFINANCE			Geography: ALERUS FINANCIAL				Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011									
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	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Grand Forks MSA	453	13.84	0.09	0.00	1.58	0.88	75.52	54.53	22.81	44.59	12.45	0.00	9.52	11.93	13.47	
Minneapolis MSA	2,427	74.17	1.76	1.36	14.77	8.90	52.30	41.45	31.16	48.29	1.49	1.34	1.35	1.30	1.72	
Fargo Moorhead MSA	378	11.55	0.00	0.00	8.26	2.91	72.89	56.08	18.86	41.01	3.28	0.00	3.42	2.85	4.16	
Phoenix MSA	14	0.43	1.53	0.00	21.47	0.00	40.34	42.86	36.66	57.14	0.01	0.00	0.00	0.03	0.01	

\* Based on 2011 Peer Mortgage Data (USPR)

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

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

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

Geographic Distribution: MULTIFAMILY			Geography: ALERUS FINANCIAL				Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011					Market Share (%) by Geography*				
Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% of MF Units***	% BANK Loans****	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans						
<b>Full Review:</b>																
Grand Forks MSA	2	50.00	7.01	0.00	3.65	0.00	80.23	100.00	9.11	0.00	11.11	0.00	0.00	13.33	0.00	
Minneapolis MSA	1	25.00	10.43	0.00	30.39	0.00	44.98	100.00	14.20	0.00	0.28	0.00	0.00	0.79	0.00	
Fargo Moorhead MSA	1	25.00	0.00	0.00	30.13	0.00	60.36	100.00	9.51	0.00	0.00	0.00	0.00	0.00	0.00	
Phoenix MSA	0	0.00	6.97	0.00	40.88	0.00	36.33	0.00	15.82	0.00	0.00	0.00	0.00	0.00	0.00	

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* Multi-family loans originated and purchased in the MA/AA as a percentage of all multi-family loans originated and purchased in the rated area.

\*\*\* Percentage of Multi Family Units is the number of multi family units in a particular geography divided by the number of multifamily housing units in the area based on 2000 Census information.

\*\*\*\* Multifamily loan distribution includes Home Purchases, Home Improvement and Refinances.

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

Geographic Distribution: SMALL LOANS TO BUSINESSES			Geography: ALERUS FINANCIAL						Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011						
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 Businesses ***	% BANK Loans	% of Businesses ***	% BANK Loans	% of Businesses ***	% BANK Loans	% of Businesses ***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA	324	31.64	2.34	2.16	3.17	1.54	70.60	52.47	23.89	43.83	9.93	16.00	3.70	8.52	16.97
Minneapolis MSA	202	19.73	3.86	1.49	15.49	17.33	48.86	48.02	31.63	33.17	0.28	0.15	0.34	0.28	0.26
Fargo Moorhead MSA	426	41.60	0.00	0.00	22.48	37.32	58.95	42.02	18.56	20.66	4.54	0.00	5.45	4.26	4.51
Phoenix MSA	72	7.03	3.55	4.17	17.80	33.33	32.48	26.39	46.10	36.11	0.08	0.07	0.18	0.06	0.06

\* Based on 2011 Peer Small Business Data -- US and 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 (2011).

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

Geographic Distribution: SMALL LOANS TO FARMS		Geography: ALERUS FINANCIAL								Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011					
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	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA	107	69.93	0.10	0.00	0.58	0.00	79.51	74.77	19.81	25.23	8.36	0.00	0.00	7.08	18.99
Minneapolis MSA	2	1.31	0.94	0.00	8.45	0.00	58.31	50.00	32.28	50.00	0.49	0.00	0.00	0.00	1.45
Fargo Moorhead MSA	41	26.80	0.00	0.00	5.37	2.44	83.08	43.90	11.55	53.66	2.66	0.00	8.33	1.31	17.31
Phoenix MSA	3	1.96	2.25	0.00	19.71	0.00	36.19	0.00	41.81	100.00	1.17	0.00	0.00	0.00	2.73

\* Based on 2011 Peer Small Business Data -- US and 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 (2011).

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

Borrower Distribution: HOME PURCHASE		Geography: ALERUS FINANCIAL								Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011					
Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*				
	#	% of Total**	% Families***	% BANK Loans****	% Families 4	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA	290	11.92	17.59	8.37	19.53	21.67	25.02	28.52	37.85	41.44	14.69	16.50	8.78	15.73	17.38
Minneapolis MSA	1,903	78.25	17.22	14.74	18.63	25.07	25.74	22.96	38.40	37.23	2.94	1.96	2.67	3.10	3.79
Fargo Moorhead MSA	233	9.58	17.69	12.16	18.73	18.92	26.50	33.33	37.08	35.59	4.22	4.55	2.08	6.01	4.43
Phoenix MSA	6	0.25	19.09	16.67	18.51	16.67	21.75	0.00	40.65	66.67	0.00	0.01	0.00	0.00	0.00

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* 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 Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 1.7% of loans originated and purchased by bank.

4 Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)



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

Borrower Distribution: HOME IMPROVEMENT			Geography: ALERUS FINANCIAL						Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011						
Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*				
	#	% of Total**	% Families***	% BANK Loans****	% Families <sup>5</sup>	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA	117	53.42	17.59	3.64	19.53	20.91	25.02	30.00	37.85	45.45	22.38	0.00	23.40	28.85	23.60
Minneapolis MSA	8	3.65	17.22	25.00	18.63	37.50	25.74	25.00	38.40	12.50	0.13	0.00	0.29	0.00	0.18
Fargo Moorhead MSA	92	42.01	17.69	6.59	18.73	18.68	26.50	34.07	37.08	40.66	8.81	6.12	7.27	11.76	8.15
Phoenix MSA	2	0.91	19.09	50.00	18.51	0.00	21.75	50.00	40.65	0.00	0.16	0.85	0.00	0.35	0.00

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* 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 Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 3.7% of loans originated and purchased by bank.

<sup>5</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

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

Borrower Distribution: HOME MORTGAGE REFINANCE			Geography: ALERUS FINANCIAL						Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011						
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 6	% BANK Loans****	% Families ***	% BANK Loans****	% Families ***	% BANK Loans****	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA	453	13.84	17.59	4.19	19.53	11.33	25.02	23.65	37.85	60.84	13.54	11.54	8.89	12.67	15.73
Minneapolis MSA	2,427	74.17	17.22	5.13	18.63	16.24	25.74	26.77	38.40	51.86	1.68	1.15	1.39	1.65	1.89
Fargo Moorhead MSA	378	11.55	17.69	5.04	18.73	15.13	26.50	30.25	37.08	49.58	3.72	3.63	3.30	3.51	4.03
Phoenix MSA	14	0.43	19.09	7.14	18.51	21.43	21.75	0.00	40.65	71.43	0.02	0.00	0.05	0.00	0.02

\* Based on 2011 Peer Mortgage Data (USPR)

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

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 6.6% of loans originated and purchased by bank.

6 Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

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

Borrower Distribution: SMALL LOANS TO BUSINESSES		Geography: ALERUS FINANCIAL			Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011				
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>									
Grand Forks MSA	324	31.61	68.55	51.23	54.94	24.69	20.37	9.93	14.08
Minneapolis MSA	203	19.80	67.40	52.22	32.51	26.60	40.89	0.28	0.29
Fargo Moorhead MSA	426	41.56	68.65	58.92	55.87	18.78	25.35	4.54	6.56
Phoenix MSA	72	7.02	66.50	34.72	31.94	26.39	41.67	0.08	0.06

\* Based on 2011 Peer Small Business Data -- US and 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 - 2011).

\*\*\*\* 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 0.68% 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		Geography: ALERUS FINANCIAL			Evaluation Period: JULY 1, 2009 TO DECEMBER 31, 2011				
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 \$500,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Grand Forks MSA	107	69.93	97.38	75.70	49.53	23.36	27.10	8.36	8.83
Minneapolis MSA	2	1.31	96.81	100.00	0.00	50.00	50.00	0.49	0.65
Fargo Moorhead MSA	41	26.80	97.31	75.61	46.34	36.59	17.07	2.66	2.67
Phoenix MSA	3	1.96	95.17	0.00	0.00	0.00	100.00	1.17	0.00

\* Based on 2011 Peer Small Business Data -- US and 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 - 2011).

\*\*\*\* 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 0.65% of small loans to farms originated and purchased by the bank.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS		Geography: ALERUS FINANCIAL				Evaluation Period: JULY 1, 2009 TO JUNE 30, 2012			
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>									
Grand Forks MSA	0	0	52	195	52	195	11.90	0	0
Minneapolis MSA	0	0	36	211	36	211	12.88	0	0
Fargo Moorhead MSA	1	250	40	87	41	87	5.31	0	0
Phoenix MSA	0	0	4	8	4	8	0.49	0	0
Statewide/Regional	3	987	1	150	4	1,137	69.41	0	0

\* 'Prior Period Investments' means investments made in a previous 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 Geography: ALERUS FINANCIAL Evaluation Period: JULY 1, 2009 TO JUNE 30, 2012																	
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>																	
Grand Forks MSA	19.12	5	33.33	0.00	0.00	5.00	0.00	0	0	0	0	0	0	5.13	6.27	70.35	18.25
Minneapolis MSA	0.16	3	20.00	0.00	0.00	2.00	1.00	2	0	0	0	2	0	5.30	18.91	48.16	27.54
Fargo Moorhead MSA	4.75	5	33.33	0.00	1.00	2.00	2.00	0	1	0	0	0	-1	0.00	16.18	67.69	16.12
Phoenix MSA	0.07	2	13.33	0.00	0.00	0.00	2.00	1	0	0	0	0	1	4.88	28.69	36.78	29.64

