



**LARGE BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**November 23, 2009**

### **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

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**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.

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# Overall CRA Rating

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

The following table indicates the performance level of **Alerus Financial, National Association** with respect to the lending, investment, and service tests:

Performance Levels	Alerus Financial, National Association Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Low Satisfactory	X	X	
Needs to Improve			
Substantial Noncompliance			

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

The major factors that support this rating include:

- Alerus Financial, NA's performance under the Lending Test in both the state of North Dakota and the state of Minnesota is adequate. Geographic distribution is adequate in North Dakota and excellent in Minnesota. Borrower distribution is adequate in North Dakota and poor in Minnesota. Community development lending had a positive impact in the state of North Dakota.
- Performance under the Investment Test is adequate in both North Dakota and Minnesota based upon the bank's resources and financial capacity.
- Alerus Financial's performance under the Service Test is good. The bank demonstrates a good level of involvement in the state of North Dakota and an adequate level in the state of Minnesota. The Minnesota market was entered into during this evaluation period.

## 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 statistical 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, 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 percent tabulations, the count of households always equals the count of occupied housing units.

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

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

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

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

**Metropolitan Area (MA):** Any 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 (MSA):** 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 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

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

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

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

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

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

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with

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

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

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

## Description of Institution

Alerus Financial, National Association (Alerus) is a \$761 million institution headquartered in Grand Forks, North Dakota. This is an interstate bank with branches located in Grand Forks, North Dakota; Fargo, North Dakota; and Minnetonka, Minnesota. There are four branches and the main office in Grand Forks, four branches in Fargo, and one in Minnetonka. Its parent company is the \$764 million Alerus Financial Corporation (Alerus FC), also of Grand Forks North Dakota.

Alerus is a full-service commercial bank. During this evaluation period, the Minnesota assessment area had a business focus and the North Dakota assessment areas' focus included both business and consumer banking. Alerus has one affiliate company, Alerus Appraisal Corporation and three operating subsidiaries. Alerus Securities Corporation provides brokerage and investment services; Alerus Financial Insurance Services provides insurance products and services to customers; Alerus Investment Advisory Services is a registered investment agency. The bank did not elect to have affiliate activity considered in this evaluation.

In January 2007, Alerus purchased a branch in Minnetonka, Minnesota which initiated the entrance into the Minneapolis market. In May 2009, the bank purchased a branch in Arizona. However, because of the limited time this branch has been in operation, we did not include an evaluation of the Phoenix assessment area in this performance evaluation.

As of June 30, 2009, Alerus' net loans and leases represented 73% of total assets and 87% of total deposits. The loan portfolio is comprised of 70% commercial, commercial real estate, and multifamily real estate loans; 18% one-to-four family residential real estate loans; 7% agriculture loans; and 5% consumer loans. Tier one capital is \$69 million with a Tier one leverage ratio of 9.30%.

There are no known financial, legal, or other factors which impede Alerus' ability to meet the credit needs of its assessment areas.

Alerus received a "Satisfactory" rating during the last CRA evaluation dated September 17, 2006.

# Scope of the Evaluation

## Evaluation Period/Products Evaluated

The evaluation period for the Lending Test was January 1, 2006 through June 30, 2009, except for community development loans which were evaluated through November 23, 2009. Community development (CD) investments and services were considered from September 17, 2006 through November 23, 2009.

Home mortgage loans represent the largest portion of lending activity during the evaluation period with 2,287 originations totaling nearly \$224 million. Small loans to businesses account for 1,618 loans totaling over \$290 million, and 413 loans totaling \$63 million were small loans to farms.

Home purchase and home refinance loans comprise the largest portion of the lending activity and are comparable in volume in the Grand Forks and Fargo assessment areas. In the Minneapolis assessment area, total home loans were minimal with only seven loan originations. Based on this low volume, an analysis of home loans was not conducted for this area. This is consistent with the bank's business focus in the Minneapolis assessment area during the evaluation period.

The geographic distribution conclusions are based on the geographic distribution of the bank's loans, any unexplained gaps in lending in any of the assessment areas, and the degree of benefit to the assessment areas.

The analysis of borrower distribution takes the poverty level of each assessment area into consideration and the impact on lower-income families ability to obtain home loans. Housing costs per assessment area were also considered as a factor that may potentially limit demand by lower-income families. Refer to Appendix C: Market Profiles for poverty levels and housing costs in each assessment area.

The evaluation of community development activities included grants and donations for the Investment Test. The volume by number and dollar of investments received primary consideration. The Service Test was largely based on the delivery of products and services in Alerus' assessment areas. We also gave consideration to community development services provided by bank employees that provided benefit to one of the three assessment areas.

## Data Integrity

Prior to the analysis for this evaluation, we conducted a review of HMDA and small loans for business and farm data collected by Alerus. We did this to test the accuracy of the information reported. We found the information to be reliable and useful for this evaluation.

In addition, we reviewed community development loans, investments and services presented by management for consideration. We determined a majority did have a community development purpose and included these in our review.

## **Selection of Areas for Full-Scope Review**

Alerus has three assessment areas (AAs), all of which were selected for full-scope reviews. Two AAs are located in North Dakota and contain a significant volume of the bank's total activity. The Minneapolis AA is the newest market for the bank and a low volume of lending and community development activity occurred during the evaluation period. Refer to the "Scope" section under each state rating for details.

## **Ratings**

The bank's overall rating is a blend of all three AAs. This includes a rating for the State of North Dakota and the State of Minnesota. We placed the greatest weight on the areas from which it derives the greatest volume of deposits. As a result, the most weight was placed on the performance in the State of North Dakota from which over 96% of deposits are attributable. The State of Minnesota holds just 2% of the deposits. The remaining deposits are from the State of Arizona which was not included in this evaluation, as discussed under the Description of the Institution section of this evaluation.

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

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

<b>CRA Rating for North Dakota:</b>	<b>Satisfactory</b>
<b>The lending test is rated:</b>	<b>Low Satisfactory</b>
<b>The investment test is rated:</b>	<b>Low Satisfactory</b>
<b>The service test is rated:</b>	<b>High Satisfactory</b>

The major factors that support this rating include:

- Alerus' performance in the Lending Test in the State of North Dakota is adequate. This is a result of the combination of adequate geographic distribution and adequate borrower income distribution. Community development lending is good and had a positive impact on the Lending Test.
- Alerus' performance in the Investment Test in the State of North Dakota is adequate. This is based on the level of qualified community development investments given the bank's resources and capacity.
- Alerus' performance in the Service Test is good. This performance is demonstrated by the level of community development services involvement, the accessibility of branches and ATMs to individuals and geographies of different incomes, and the variety of other alternative delivery systems offered.

## Description of Institution's Operations in North Dakota

Alerus has two AAs in North Dakota - a portion of the Grand Forks ND-MN MSA and a portion of the Fargo ND-MN MSA. Statewide, the bank holds \$518 million of deposits which represents 96% of the bank's total deposits. Within North Dakota, 58% of the deposits are concentrated in the Grand Forks ND-MN MSA and 38% in the Fargo ND-MN MSA. Because of this, the Grand Forks AA carried the greatest weight for the overall state conclusion.

In the Grand Forks ND-MN MSA, there are five bank locations and eleven ATMs. Competition is strong with twenty-one institutions having a presence in the MSA. As of June 30, 2009, Alerus was ranked second with a deposit market share of 19.14%. Primary competitors are Bremer Bank NA and US Bank with deposit market shares of 25.51% and 9.13%, respectively.

In the Fargo ND-MN MSA, the bank has four branches and five ATMs. Alerus was ranked sixth out of 29 institutions with a deposit market share of 5.15%. Primary competition is from State Bank and Trust, Wells Fargo, US Bank, and Bremer Bank NA with deposit market shares of 29.14%, 13.97%, 7.82%, and 7.30%, respectively.

Refer to the Market Profiles for the State of North Dakota in Appendix C for detailed demographics and other performance context information for the Grand Forks MSA and Fargo MSA.

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

Both AAs in North Dakota were selected for a full-scope review based of the significant volume of bank deposits held by each area. The Grand Forks ND-MN AA includes 24 of the 27 CTs in the MSA. The Fargo ND-MN AA includes 38 of the 40 tracts that comprise the MSA. In both AAs, tracts excluded were located the furthest distance from any branch location and all were middle-income. All bank locations in both AAs are in the State of North Dakota.

We contacted several community sources to determine the primary needs of each AA. In the Grand Forks ND-MN MSA, affordable housing was identified as a primary credit need. In addition there is an ongoing demand for investment capital loans. In the Fargo ND-MN MSA, credit needs include small business loans and financing for low-income individuals.

## **LENDING TEST**

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

The bank's performance under the Lending Test in the State of North Dakota is rated "Low Satisfactory". Based on full-scope reviews, the bank's performances in both the Grand Forks ND-MN MSA and the Fargo ND-MN MSA are adequate.

### **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.

Lending levels reflect adequate responsiveness in relation to area credit needs and the bank's market shares. Lending activity is reasonable given both markets have a high degree of competition.

In the Grand Forks AA, the bank originated 850 small loans to businesses which is 9.54% of the area market share of lenders reporting CRA data. For home purchase, there were 488 originations and 9.02% of the market share of HMDA reporting institutions and 552 home mortgage refinance originations for 11.44% of the market share. For home improvement loans, Alerus originated 287 loans for 23.91% of the market share. Small loans to farms total 334 originations and 10.32% of the AA market share.

In the Fargo AA, the bank originated 744 small loans to businesses which is 2.59% of the area market share. Home purchase originations totaled 394 for a 2.23% market share and home mortgage refinances equated to 390 originations and 2.99% of the market share. For home improvement originations, 155 were reported for 4.87% of the market share. Alerus reported 79 small loans to farms which is 2.37% of the market share for CRA reporting institutions.

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

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

Refer to Tables 2, 3, 4 and 5 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' geographic distribution of home mortgage loans in Grand Forks ND-MN MSA AA is good. Home mortgage loan geographic distribution in the Fargo ND-MN MSA AA is adequate.

### **Home Purchase Loans**

Alerus' geographic distribution of home purchase loans is excellent in the Grand Forks AA. In both the low- and moderate-income geographies, Alerus' exceeds the percentages of owner-occupied units in those geographies.

In the Fargo AA, the geographic distribution is adequate for home purchase loans. The AA includes no low-income census tracts. In the moderate-income geographies, Alerus' lending activity is slightly below the percentage of owner-occupied units.

### **Home Improvement Loans**

Alerus' geographic distribution of home improvement loans is adequate in the Grand Forks AA. Although lending in the low-income geography exceeds the percentage of owner-occupied units in this area, lending in the moderate-income geographies is below the percentages of owner-occupied units in these geographies.

In the Fargo AA, the geographic distribution is adequate for home improvement loans. The AA includes no low-income census tracts. In the moderate-income geographies, Alerus' lending activity is slightly below the percentage of owner-occupied units.

### **Home Refinance Loans**

Alerus' geographic distribution of home refinance loans is adequate in the Grand Forks AA. In the low-income geography, Alerus exceeds the percentage of owner-occupied units. In the moderate-income geographies, Alerus' was below the percentages of owner-occupied units in those geographies.

In the Fargo AA, the geographic distribution is poor for home refinance loans. The AA includes no low-income census tracts. In the moderate-income geographies, Alerus' lending activity is below the percentage of owner-occupied units.

### ***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 ND-MN MSA AA is poor. The percentage of these loans in both the low- and moderate-income geographies is below the percentages of businesses located in those geographies. This is

somewhat mitigated given the university is located in the low-income tract and an air force base is located in one moderate-income tract.

The geographic distribution of small loans to businesses in the Fargo ND-MN MSA AA is excellent. There are no low-income CTs in this AA. Lending to businesses in moderate-income tracts exceeds the percentage of businesses located in these geographies.

### ***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.

The geographic distribution of Alerus' small loans to farms in the Grand Forks ND-MN MSA AA is adequate. The percentage of these loans in both the low- and moderate-income geographies is below the percentages of farms located in those geographies. However, only one farm is reported in the low-income tract and the moderate-income tracts include an air force base and downtown East Grand Forks, Minnesota. Farm land is located in a proximity furthest from the bank locations.

The geographic distribution of small loans to farms in the Fargo ND-MN MSA AA is poor. Lending to farms in moderate-income tracts is below the percentage of farms located in these geographies. A total of 57 farms are reported in this AA. The moderate-income CTs are primarily located in the city limits of Fargo, ND and Moorhead, MN.

### ***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 unexplained conspicuous gaps in the Grand Forks ND-MN MSA AA or the Fargo ND-MN MSA AA. The poor performance in small loans to farms is primarily due to Alerus' focus on business and home mortgage lending. A high level of competition in both AAs also contributes to lower performance.

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

Alerus made a high percentage of its loans within each of its three AAs. This includes all loan originations and purchases. Alerus made 85% of its HMDA loans and 89% of its small loans to businesses and farms within its AAs. This level of local lending shows good responsiveness to area credit needs.

## **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.

Alerus' borrower distribution of home mortgage loans in Grand Forks ND-MN MSA AA is adequate. Home mortgage loan borrower distribution in the Fargo ND-MN MSA AA is good. The overall performance for home mortgage loans in each AA takes into consideration that lower-income borrowers have a more difficult time qualifying for home mortgage loans.

### **Home Purchase Loans**

Alerus' distribution of home purchase loans to borrowers of different income levels is good in the Grand Forks ND-MN MSA AA. The percentage of loans to low-income borrowers is below the percentages of low-income families. However, the percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families.

In the Fargo ND-MN MSA AA, the distribution of home purchase loans to borrowers of different income levels is good. As in the Grand Forks AA, the percentage of loans to low-income borrowers is below the percentages of low-income families and loans to moderate-income borrowers exceed the percentage of moderate-income families.

### **Home Improvement Loans**

Alerus' distribution of home improvement loans to borrowers of different income levels is adequate in the Grand Forks ND-MN MSA AA. The percentage of loans to low- and moderate-income borrowers is slightly below the percentages of low-income families.

In the Fargo ND-MN MSA AA, the distribution of home improvement loans to borrowers of different income levels is good. The percentage of loans to low-income borrowers is below the percentages of low-income families but loans to moderate-income borrowers exceed the percentage of moderate-income families.

### **Home Refinance Loans**

Alerus' distribution of home mortgage refinance loans to borrowers of different income levels is adequate in the Grand Forks ND-MN MSA AA. The percentage of loans to low-income borrowers is below the percentages of low-income families. However, the percentage of loans to moderate-income borrowers is comparable to the percentage of moderate-income families.

In the Fargo ND-MN MSA AA, the distribution of home mortgage refinance loans to borrowers of different income levels is adequate. As in the Grand Forks AA, the percentage of loans to low-income borrowers is below the percentages of low-income families and the percentage of loans to moderate-income borrowers is comparable to the percentage of moderate-income families.

### ***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 borrowers in the Grand Forks ND-MN MSA AA reflects poor penetration among business customers of different sizes. The percentage of Alerus' loans to small businesses (those with revenues of \$1 million or less) is significantly less than the percentage of businesses with this revenue size.

The distribution of borrowers in the Fargo ND-MN MSA AA also reflects poor penetration among business customers of different sizes. The percentage of Alerus' loans to small businesses is less than the percentage of businesses with revenues of \$1 million or less.

### ***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.

The distribution of borrowers in the Grand Forks ND-MN MSA AA reflects poor penetration among farm customers of different sizes. The percentage of Alerus' loans to small farms (those with revenues of \$1 million or less) is less than the percentage of farms with this revenue size.

The distribution of borrowers in the Fargo ND-MN MSA AA reflects adequate penetration among farms of different sizes. The percentage of Alerus' loans to small farms is comparable to the percentage of farms with revenues of \$1 million or less.

### **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.

Community development lending had a positive impact in the Grand Forks ND-MN MSA AA. Alerus originated five community development loans during the evaluation period totaling nearly \$2.4 million. This equates to 6.39% of the AA's allocated Tier One Capital.

Community development lending had a positive impact in the Fargo ND-MN MSA AA, as well. Alerus originated only one community development loan, but in the amount of \$1.7 million. This equates to 6.4% of this area's allocated Tier One Capital.

## **INVESTMENT TEST**

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

The bank's performance under the Investment Test in North Dakota is rated "Low Satisfactory". Based on full-scope reviews, the bank's performance in both the Grand Forks MSA AA and the Fargo MSA AA is adequate.

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.

Alerus' volume of qualified investments in the Grand Forks MSA AA is adequate. During the evaluation period the bank made 50 qualified investments totaling nearly \$307 thousand. In addition, \$620 thousand in prior period investments remain outstanding.

In the Fargo MSA AA, the volume of qualified investments is adequate. During the evaluation period, Alerus made 33 qualifying investments totaling \$398 thousand.

Three current period investments were made in regional small business investment corporations (SBIC) totaling \$772 thousand. These corporations conduct activities that benefit state or regional areas that include the North Dakota AAs.

## **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 performance in both the Grand Forks ND-MN MSA AA and the Fargo ND-MN MSA AA is 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.

The dispersion of branches and accessibility to products and services is good. Alerus' delivery systems are available to geographies and individuals of different incomes. Extended hours are offered in some of the branch locations and drive-up hours are offered in two Grand Forks and all Fargo locations. Saturday hours are available in most branch locations. These services enhance the accessibility of the branches.

Alerus operates five locations in the Grand Forks ND-MN MSA AA. Four locations are in the city of Grand Forks and one is in Northwood, ND. All are in middle-income geographies. Alerus also has eleven ATMs in this AA with six being full-service. One is located in the lower-income geography of the AA and the remaining are in middle- or upper-income census tracts.

In the Fargo ND-MN MSA AA, Alerus operates four branch locations. One branch is in a moderate-income geography and the remaining are in upper-income geographies. Alerus operates five ATMs with 20% in a moderate-income geography, 40% in middle-income geographies, and 40% in upper-income geographies. The ATM located in the moderate-income geography is full-service.

Alerus' record of opening and closing branches in both AAs is good. No branches were opened or closed in the Grand Forks AA. Two supermarket branches in middle-income tracts were closed during the evaluation period in the Fargo AA. One closure was a result of the closing of the supermarket.

Branch and ATM services are supplemented by providing other alternative delivery systems. These include telephone and internet banking and Mobile Access which is accessibility through cell phone service. In addition, during the evaluation period, Alerus introduced "E-Card" which is a checking account for individuals who have experienced prior financial difficulties. Free checking accounts with no minimum balance are also offered.

## **Community Development Services**

Alerus' level of community development services is good in the Grand Forks ND-MN MSA AA and the Fargo ND-MN 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 AA, 25 employees worked with 22 community development organizations. In eleven of these organizations, 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.

Eight employees working with 12 community development organizations provided services in the Fargo AA. In eight of the organizations, 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 continues to maintain their Connect with the Community program. This allows employees to donate six hours per year of paid time off to volunteer at organizations of their choice.

## State of Minnesota

<b>CRA Rating for Minnesota:</b>	<b>Satisfactory</b>
<b>The lending test is rated:</b>	<b>Low Satisfactory</b>
<b>The investment test is rated:</b>	<b>Low Satisfactory</b>
<b>The service test is rated:</b>	<b>Low Satisfactory</b>

The major factors that support this rating include:

- Alerus' performance in the Lending Test in the State of Minnesota is adequate. This is a result of the combination of excellent geographic distribution and poor borrower income distribution.
- Alerus' performance in the Investment Test in the State of Minnesota is adequate. This is based on the level of qualified community development investments given the bank's resources and capacity.
- Alerus' performance in the Service Test is adequate. This performance is demonstrated by the level of community development services involvement, the accessibility of branches to individuals and geographies of different incomes, and the variety of other alternative delivery systems offered.

## Description of Institution's Operations in Minnesota

Alerus entered the Minneapolis market in January 2007 with the purchase of a branch location. This branch is located in Minnetonka, Minnesota which is in Hennepin County in the Minneapolis MSA. Alerus' AA includes a portion of the MSA which is all in Hennepin County. The AA consists of 93 census tracts including 13 moderate-, 36 middle-, and 44 upper-income census tracts. Statewide, the bank holds less than \$12 million of deposits which represents just 2% of the bank's total deposits.

The Minnetonka branch is the only location in the Minneapolis MSA AA and does not have an ATM. Competition is strong with 82 banks having a presence in Hennepin County. As of June 30, 2009, Alerus was ranked 72<sup>nd</sup> with a deposit market share of 0.03%. Wells Fargo Bank NA and US Bank NA hold the largest market share at 47.83% and 21.47%, 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.

## **Scope of Evaluation in Minnesota**

The Minnetonka office is the only branch location in the State of Minnesota. Therefore, a full-scope review was conducted for this AA. The focus for this branch during the evaluation period was business lending. As a result, only seven HMDA reportable loans were originated in this area. No small loans to farms or multi-family housing loans were originated in this AA. A meaningful analysis of these loans could not be conducted. Lending activity performance is based on small loans to businesses only.

We contacted several community sources to determine the primary needs of each AA. In the Minneapolis MSA AA, affordable housing and residential real estate construction were identified as a primary credit needs.

## **LENDING TEST**

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

The bank's performance under the Lending Test in the State of Minnesota is rated "Low Satisfactory". Based on the full-scope review, the bank's performance in the Minneapolis MSA AA is adequate.

### **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.

Lending levels reflect adequate responsiveness in relation to area credit needs and the bank's market share. Lending activity is reasonable given the high level of competition and short time in which the branch has been in operation. Alerus has 0.03% of the Minneapolis MSA market share. Alerus originated 24 small loans to businesses which is 0.04% of the area market share of lenders reporting CRA data.

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

#### ***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. The percentage of these loans in the moderate-income geographies exceeds the percentage of businesses located in those 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 unexplained conspicuous gaps in the Minneapolis MSA AA. This AA does not include any low-income CTs.

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

### ***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 borrowers in the Minneapolis MN MSA AA reflects poor penetration among business customers of different sizes. The percentage of Alerus' loans to small businesses (those with revenues of \$1 million or less) is less than the percentage of businesses with this revenue size.

## **INVESTMENT TEST**

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

The bank's performance under the Investment Test in Minnesota is rated "Low Satisfactory". Based on the full-scope review, the bank's performance in the Minneapolis MSA AA is adequate.

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.

Alerus' volume of qualified investments in the Minneapolis MSA AA is adequate. During the evaluation period Alerus made four qualified investments totaling just over \$20 thousand.

## **SERVICE TEST**

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

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

## **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.

The dispersion of branches and accessibility to products and services is adequate. Alerus' delivery systems are available to geographies and individuals of different incomes. The one location is in a middle-income census tract but is in close proximity to moderate-income areas.

The only branch location in the Minneapolis MSA AA was opened in January 2007. No branches were closed in this AA.

Other alternative delivery systems include telephone and internet banking and Mobile Access which is accessibility through cell phone service. In addition, during the evaluation period, Alerus introduced "E-Card" which is a checking account for individuals who have experienced prior financial difficulties. Free checking accounts with no minimum balance are also available.

### **Community Development Services**

Alerus' level of community development services is adequate in the Minneapolis MN 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 Minneapolis AA, four employees worked with eight community development organizations. In four of these organizations, employees served in a leadership capacity. These organizations provide a variety of services to low- and moderate-income individuals and support affordable housing.

## Appendix A: Scope of Examination

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The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and 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): 1/1/2006 to 6/30/2009 Investment and Service Tests and CD Loans: 9/17/2006 to 11/23/2009	
<b>Financial Institution</b>		<b>Products Reviewed</b>
Alerus Financial, National Association 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	Full-Scope Full-Scope	
State of Minnesota Minneapolis MSA AA #33460	Full-Scope	

## Appendix B: Summary of State Ratings

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RATINGS		BANK NAME		
Overall Bank:	Lending Test Rating*	Investment Test Rating	Service Test Rating	Overall Bank/State Rating
Alerus Financial, NA	Low Satisfactory	Low Satisfactory	High Satisfactory	Satisfactory
State:				
North Dakota	Low Satisfactory	Low Satisfactory	High Satisfactory	Satisfactory
Minnesota	Low Satisfactory	Low Satisfactory	Low Satisfactory	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 Full-Scope Areas

#### Grand Forks MSA AA

Demographic Information for Full-Scope Area: Grand Forks MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	24	4.17	8.33	66.67	20.83	0.00
Population by Geography	87,726	5.70	6.96	67.06	20.28	0.00
Owner-Occupied Housing by Geography	19,403	0.10	1.83	71.51	26.55	0.00
Businesses by Geography	7,600	2.75	5.76	67.43	24.05	0.00
Farms by Geography	659	0.15	4.55	74.81	20.49	0.00
Family Distribution by Income Level	21,224	16.98	18.93	25.21	38.89	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	7,621	4.83	10.26	73.49	11.42	0.00
Median Family Income = \$45,777			Median Housing Value = \$83,880			
HUD Adjusted Median Family Income for XXXX = \$61,800			Unemployment Rate = 2.41%			
Households Below the Poverty Level = 13%						

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census, and 2009 HUD updated MFI.

The Grand Forks MSA AA consists of Grand Forks County in North Dakota and Polk County in Minnesota. The AA includes all but three middle-income CTs. These are excluded due to proximity to bank branch locations. The AA includes one low-income, two moderate-income, 16 middle-income, and five upper-income census tracts. The bank's AA complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income areas. This AA includes the bank's main office plus four branch locations. In addition, there are eleven ATMs throughout the AA including one in the low-income CT.

The AA population remained stable between 2000 and 2009. The area consists of 21,224 families. Of these families, 16.98% are low-income, 18.93% are moderate-income, 25.21% are middle-income and 38.89% are upper-income. According to the Department of Housing and Urban Development, the median family income was \$61,800 in 2009.

A majority of employment is provided by the education industry at 16%, health industry at 15%, retail trade at 14%, and entertainment/recreation at 12% each. According to the Bureau of Labor statistics the unemployment rate for the Grand Forks ND-MN MSA is 5.0%, as of August 2009, which is well below the national average of 9.8%.

Competition in the AA is strong with twenty-one institutions. Alerus ranks second with a deposit market share of 19.14% as of June 30, 2009. Primary competition is from Bremer Bank NA and US Bank with deposit market shares of 25.51% and 9.13%, respectively.

During our evaluation we made a local community contact to better understand the demographics and primary credit needs of the AA. Affordable housing was identified as a primary credit need. The contact felt local financial institutions are doing a good job of meeting the community needs.

### Fargo MSA AA

Demographic Information for Full-Scope Area: Fargo MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	38	0.00	15.79	71.05	13.16	0.00
Population by Geography	164,991	0.00	17.10	65.86	17.04	0.00
Owner-Occupied Housing by Geography	38,322	0.00	8.89	70.80	20.31	0.00
Businesses by Geography	18,033	0.00	27.18	56.07	16.74	0.00
Farms by Geography	861	0.00	6.62	81.42	11.96	0.00
Family Distribution by Income Level	39,947	17.63	18.63	26.24	37.49	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	14,485	0.00	18.80	70.51	10.69	0.00
Median Family Income = \$50,758 HUD Adjusted Median Family Income for 2009 = \$68,200 Households Below the Poverty Level = 12%					Median Housing Value = \$89,680 Unemployment Rate = 2.45%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 U.S. Census, and 2009 HUD updated MFI.

The Fargo MSA AA consists of Cass County in North Dakota and Clay County in Minnesota. The AA includes 38 of the 40 census tracts within the MSA. The AA includes no low-income, six moderate-income, 27 middle-income and 5 upper-income tracts. The bank's AA complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income areas. Both tracts excluded from the AA are middle-income and are not in close proximity to any bank branches.

The AA population increased by 14% between 2000 and 2009. The area consists of 39,947 families. Of these families, 18% are low-income, 19% are moderate-income, 26% are middle-income and 37% are upper-income. According to the Department of Housing and Urban Development, the median family income was \$68,200 in 2009.

A majority of employment is provided by retail trade at 15%, health industry at 14%, and entertainment/recreation and education at 10% each. According to the Bureau of Labor statistics the unemployment rate for the Fargo ND-MN MSA is 4.1%, as of August 2009, which is well below the national average of 9.8%.

Competition in the AA is strong. Alerus ranks sixth out of 29 institutions with a deposit market share of 5.15%. Primary competition is from State Bank and Trust, Wells Fargo, US Bank, and Bremer Bank NA with deposit market shares of 29.14%, 13.97%, 7.82%, and 7.30% respectively.

During our evaluation we made a local community contact to better understand the demographics and primary credit needs of the AA. Small business loans and financing for low-income individuals are identified as the AA's primary credit needs. Community contacts felt local financial institutions are doing a good job of meet these needs.

## State of Minnesota Full-Scope Areas

### Minneapolis MSA AA

Demographic Information for Full-Scope Area: (Name of MA or Nonmetropolitan Area)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	93	0.00	13.98	38.71	47.31	0.00
Population by Geography	384,099	0.00	12.56	36.54	50.90	0.00
Owner-Occupied Housing by Geography	113,059	0.00	8.39	37.60	54.01	0.00
Businesses by Geography	43,384	0.00	10.35	37.34	52.30	0.00
Farms by Geography	731	0.00	7.11	26.27	66.62	0.00
Family Distribution by Income Level	102,269	12.71	16.73	22.61	47.95	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	30,115	0.00	21.57	44.59	33.85	0.00
Median Family Income	= \$64,885					
HUD Adjusted Median Family Income for 2009	= \$83,900					
Households Below the Poverty Level	= 4%					
					Median Housing Value = \$175,148	
					Unemployment Rate = 1.57%	

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

Source: 2000 U.S. Census, and 2009 HUD updated MFI.

Alerus' AA within the Minneapolis MSA is limited to a portion of Hennepin County as the branch office is located in the city of Minnetonka. The AA consists of 93 CTs, including 13 moderate-, 36 middle- and 44 upper-income tracts. The bank's AA complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income areas.

The AA population increased by 4.4% between 2000 and 2009. The area consists of 104,200 families. Of these families, 12.9% are low-income, 14.8% are moderate-income, 23.7% are middle-income and 48.5% are upper-income. According to the Department of Housing and Urban Development, the median family income was \$83,900 in 2009.

A majority of employment is provided by the services industry at 47%, finance, insurance, and real estate at 11.7%, and retail trade at 10.8%. According to the Bureau of Labor statistics the unemployment rate for Hennepin County is 7.7%, as of August 2009, which is below the national average of 9.8%.

Competition in the AA is strong with eighty-two institutions. Alerus only ranks 72<sup>nd</sup> with a deposit market share of 0.03% as of June 30, 2009. Primary competition is from Wells Fargo and US Bank with deposit market shares of 47.83% and 21.47%, respectively.

During our evaluation we made a local community contact to better understand the demographics and primary credit needs of the AA. The contact identified affordable housing and construction lending as primary credit needs. The contact stated local financial institution involvement is good.

## Appendix D: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (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. Tables without data are not included in this PE. [Note: Do not renumber the tables.]

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

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. 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 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.

**Table 1. Lending Volume**

LENDING VOLUME		Geography: ALERUS FINANCIAL						Evaluation Period: JANUARY 1, 2006 TO JUNE 30, 2009				
Assessment Area (2009):	% 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>												
Alerus Fargo ND MN MSA	40.88	942	98,608	744	154,944	79	12,185	0	0	1,765	265,737	0.00
Alerus Grand Forks ND MN	58.41	1,338	123,523	850	126,872	334	50,958	0	0	2,522	301,353	0.00
Alerus Mpls AA	0.72	7	1,570	24	8,797	0	0	0	0	31	10,367	0.00

\* Loan Data as of June 30, 2009. Rated area refers to either state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is from January 01, 2007 to June 30, 2009.

\*\*\* Deposit Data as of June 30, 2009. 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: JANUARY 1, 2006 TO JUNE 30, 2009					
Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Alerus Fargo ND MN MSA	394	44.57	0.00	0.00	8.89	7.11	70.80	55.08	20.31	37.82	2.23	0.00	0.34	2.21	2.71
Alerus Grand Forks ND MN MSA	488	55.20	0.10	0.82	1.83	2.25	71.51	62.91	26.55	34.02	9.02	0.00	2.27	8.54	10.86
Alerus Mpls AA	2	0.23	0.00	0.00	8.39	50.00	37.60	0.00	54.01	50.00	0.02	0.00	0.15	0.00	0.00

\* Based on 2008 Peer Mortgage Data (Western)

\*\* 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 2009		Geography: ALERUS FINANCIAL								Evaluation Period: JANUARY 1, 2006 TO JUNE 30,					
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	Overa ll	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Alerus Fargo ND MN MSA	155	35.07	0.00	0.00	8.89	5.81	70.80	70.97	20.31	23.23	4.87	0.00	1.64	5.36	4.35
Alerus Grand Forks ND MN MSA	287	64.93	0.10	1.05	1.83	0.35	71.51	61.67	26.55	36.93	23.91	0.00	12.50	23.32	25.89
Alerus Mpls AA	0	0.00	0.00	0.00	8.39	0.00	37.60	0.00	54.01	0.00	0.00	0.00	0.00	0.00	0.00

\* Based on 2008 Peer Mortgage Data (Western)

\*\* 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 30, 2009			Geography: ALERUS FINANCIAL						Evaluation Period: JANUARY 1, 2006 TO JUNE						
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	Overa ll	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Alerus Fargo ND MN MSA	390	41.18	0.00	0.00	8.89	3.59	70.80	60.77	20.31	35.64	2.99	0.00	1.12	2.78	3.82
Alerus Grand Forks ND MN MSA	552	58.29	0.10	0.36	1.83	0.36	71.51	49.82	26.55	49.46	11.44	20.00	0.00	9.29	16.08
Alerus Mpls AA	5	0.53	0.00	0.00	8.39	0.00	37.60	0.00	54.01	100.00	0.00	0.00	0.00	0.00	0.00

\* Based on 2008 Peer Mortgage Data (Western)

\*\* 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: JANUARY 1, 2006 TO JUNE 30, 2009					
Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% of MF Units***	% BANK Loans****	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Overa II	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Alerus Fargo ND MN MSA	3	21.43	0.00	0.00	30.49	66.67	59.89	0.00	9.62	33.33	0.00	0.00	0.00	0.00	0.00
Alerus Grand Forks ND MN MSA	11	78.57	7.19	0.00	3.74	9.09	79.71	81.82	9.36	9.09	3.03	0.00	0.00	3.45	0.00
Alerus Mpls AA	0	0.00	0.00	0.00	26.67	0.00	46.94	0.00	26.39	0.00	0.00	0.00	0.00	0.00	0.00

\* Based on 2008 Peer Mortgage Data (Western)

\*\* 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 TO JUNE 30, 2009			Geography: ALERUS FINANCIAL								Evaluation Period: JANUARY 1, 2006				
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>															
Alerus Fargo ND MN MSA	744	45.98	0.00	0.00	27.18	40.59	56.07	42.74	16.74	16.67	2.59	0.00	4.32	2.11	1.96
Alerus Grand Forks ND MN MSA	850	52.53	2.75	1.18	5.76	1.65	67.43	67.65	24.05	29.53	9.54	6.67	2.15	10.79	10.60
Alerus Mpls AA	24	1.48	0.00	0.00	10.35	33.33	37.34	33.33	52.30	33.33	0.04	0.00	0.06	0.04	0.05

\* Based on 2008 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 (2009).

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

Geographic Distribution: SMALL LOANS TO FARMS 2009		Geography: ALERUS FINANCIAL								Evaluation Period: JANUARY 1, 2006 TO JUNE 30,					
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>															
Alerus Fargo ND MN MSA	79	19.13	0.00	0.00	6.62	1.27	81.42	59.49	11.96	39.24	2.37	0.00	6.67	1.88	7.79
Alerus Grand Forks ND MN MSA	334	80.87	0.15	0.00	4.55	0.00	74.81	70.96	20.49	29.04	10.32	0.00	0.00	8.23	29.17
Alerus Mpls AA	0	0.00	0.00	0.00	7.11	0.00	26.27	0.00	66.62	0.00	0.00	0.00	0.00	0.00	0.00

\* Based on 2008 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 (2009).

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

Borrower Distribution: HOME PURCHASE		Geography: ALERUS FINANCIAL						Evaluation Period: JANUARY 1, 2006 TO JUNE 30, 2009							
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**** 1	% BANK Loans**	% Families***	% BANK Loans****	% Families**	% BANK Loans****	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Alerus Fargo ND MN MSA	394	44.57	17.63	8.87	18.63	30.38	26.24	34.14	37.49	26.61	2.28	1.90	2.16	2.87	1.92
Alerus Grand Forks ND MN MSA	488	55.20	16.98	5.12	18.93	25.17	25.21	30.07	38.89	39.64	9.79	9.47	10.97	8.18	10.25
Alerus Mpls AA	2	0.23	12.71	0.00	16.73	0.00	22.61	0.00	47.95	100.00	0.00	0.00	0.00	0.00	0.00

\* Based on 2008 Peer Mortgage Data (Western)

\*\* 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 7.0% of loans originated and purchased by bank.

<sup>1</sup> 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 2009		Geography: ALERUS FINANCIAL								Evaluation Period: JANUARY 1, 2006 TO JUNE 30,					
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>2</sup>	% BANK Loans****	% Families** <sup>*</sup>	% BANK Loans****	% Families** <sup>*</sup>	% BANK Loans****	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Alerus Fargo ND MN MSA	155	35.07	17.63	10.27	18.63	19.86	26.24	30.82	37.49	39.04	4.55	5.36	6.67	3.58	4.37
Alerus Grand Forks ND MN MSA	287	64.93	16.98	6.08	18.93	12.55	25.21	24.71	38.89	56.65	23.10	13.79	24.14	18.56	27.59
Alerus Mpls AA	0	0.00	12.71	0.00	16.73	0.00	22.61	0.00	47.95	0.00	0.00	0.00	0.00	0.00	0.00

<sup>\*</sup> Based on 2008 Peer Mortgage Data (Western)

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

<sup>\*\*\*</sup> Percentage of Families is based on the 2000 Census information.

<sup>\*\*\*\*</sup> As a percentage of loans with borrower income information available. No information was available for 7.5% of loans originated and purchased by bank.

<sup>2</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 30, 2009		Geography: ALERUS FINANCIAL						Evaluation Period: JANUARY 1, 2006 TO JUNE							
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* **3	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans*** *	Overa ll	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Alerus Fargo ND MN MSA	390	41.18	17.63	2.57	18.63	17.71	26.24	36.00	37.49	43.71	2.96	0.62	2.66	3.67	2.95
Alerus Grand Forks ND MN MSA	552	58.29	16.98	5.57	18.93	17.73	25.21	23.51	38.89	53.20	10.35	6.45	11.54	5.86	13.32
Alerus Mpls AA	5	0.53	12.71	0.00	16.73	0.00	22.61	0.00	47.95	100.00	0.00	0.00	0.00	0.00	0.00

\* Based on 2008 Peer Mortgage Data (Western)

\*\* 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 11.5% of loans originated and purchased by bank.

<sup>3</sup> 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 30, 2009		Geography: ALERUS FINANCIAL			Evaluation Period: JANUARY 1, 2006 TO JUNE				
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>									
Alerus Fargo ND MN MSA	744	45.98	73.73	53.36	50.13	21.51	28.36	2.59	3.19
Alerus Grand Forks ND MN MSA	850	52.53	71.46	29.76	64.82	18.12	17.06	9.54	7.10
Alerus Mpls AA	24	1.48	75.38	50.00	16.67	45.83	37.50	0.04	0.05

\* Based on 2008 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 - 2009).

\*\*\*\* 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 0.56% 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 2009		Geography: ALERUS FINANCIAL			Evaluation Period: JANUARY 1, 2006 TO JUNE 30,				
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>									
Alerus Fargo ND MN MSA	79	19.13	97.21	94.94	41.77	46.84	11.39	2.37	2.74
Alerus Grand Forks ND MN MSA	334	80.87	96.66	76.65	55.39	24.85	19.76	10.32	9.34
Alerus Mpls AA	0	0.00	94.94	0.00	0.00	0.00	0.00	0.00	0.00

\* Based on 2008 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 - 2009).

\*\*\*\* 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 0.00% of small loans to farms originated and purchased by the bank.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS		Geography: ALERUS FINANCIAL				Evaluation Period: September 17, 2006 TO November 23, 2009			
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Alerus Fargo ND MN MSA	0	0	34	398	34	398	16.23	0	0
Alerus Grand Forks ND MN MSA	1	620	50	307	51	990	40.38	0	0
Alerus Mpls AA	0	0	4	20	4	20	0.82	0	0
Statewide/Regional	1	272	3	772	3	1,044	42.58	0	0

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

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

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

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS Geography: Alerus Financial <b>Evaluation Period:</b> January 1, 2006 TO June 30, 2009																	
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>																	
Alerus Fargo ND MN MSA	5.15	4	0.23	0	25	0	75	0	2	0	0	100	0	0.00	17.10	65.86	17.04
Alerus Grand Forks ND MN MSA	19.14	5	0.71	0	0	100	0	0	0	0	0	0	0	5.70	6.96	67.06	20.28
Alerus Mpls AA	0.03	1	0.02	0	0	100	0	1	0	0	0	100	0	0.00	12.56	36.54	50.90