



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 15, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BNC National Bank
Charter Number 24224

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Office of the Comptroller of the Currency

NORTH DAKOTA & NW MINNESOTA
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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, nor should it 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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INSTITUTION'S CRA RATING: This institution is rated “Satisfactory”.

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

BNC National Bank's (BNC) overall lending performance is satisfactory and responsiveness to meeting the needs of the bank's assessment areas (AA) is excellent.

- The bank demonstrates a strong willingness to participate in community development activities that help to meet the needs of low- and moderate-income individuals and the promotion of economic development.
- A majority of loans are made in the bank's assessment areas.
- The distribution of small loans to businesses and to borrowers of different income levels is satisfactory in the Bismarck and Minnesota assessment areas.
- The geographical distribution of loans in low- and moderate-income census tracts is satisfactory.

Scope of Examination

BNC's CRA examination is based on a review of the bank's primary loan products. The evaluation period includes originations and purchases made in 2005, 2006, and 2007 through September 30, 2007. Table 1 below depicts the volume of loans made during this time period. The evaluation period for community development activities is April 15, 2004 through November 15, 2007.

Table 1: BNC Loan Originations and Purchases in 2005, 2006, and 2007		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Commercial Loans	18.3%	60.5%
Agricultural Loans	7.1%	2.4%
Home Mortgage Loans	58.0%	36.2%
Consumer Loans	16.6%	0.9%

For purposes of this evaluation, the primary loan types are small loans to businesses (those with an origination of \$1 million or less) and residential real estate loans. These two products represent 76% of the number and 97% of the dollar volume of loans originated and purchased.

Our evaluation of small loans to businesses is based on a sample of business loans from each AA. Our business loan sample included a minimum of 25 files from each of BNC's AAs. A total of 107 business files were used in the analysis of the evaluation.

Because BNC submits residential real estate information as required by the HMDA, all of these loan types are required to be reported and were included in our analysis. A

data integrity review was conducted to ensure accuracy of reported information. Of the HMDA reportable loans, home purchase is the bank's leading product with 43% of the number and 53% of the dollar volume of loans originated. Home refinance and home improvement represent 36% and 21% of the number, respectively.

Description of Institution

The BNC charter is located in the city of Phoenix, Arizona. BNC is an interstate bank operating in three states; Arizona, Minnesota, and North Dakota. BNC has a total of 16 branches: four branches in Arizona, two branches in Minnesota, and ten branches in North Dakota.

BNC has a total of ten Assessment Areas (AAs). These AAs include the Bismarck, North Dakota branches and all of the Bismarck, ND MSA #13900; the Minnesota branches and all of the Minneapolis – St. Paul – Bloomington, MN – WI MSA #33460; the Arizona branches and all of the Phoenix – Mesa – Scottsdale, AZ MSA #38060; and several rural AAs surrounding the bank's branches in the North Dakota communities of Linton, Watford City, Crosby, Garrison, Ellendale, Stanley, and Kenmare.

The BNC charter started as BNC National Bank of Arizona, in Phoenix, Arizona on July 9, 2001. On April 8, 2002 the bank merged with its affiliate, BNC National Bank, which consisted of its Minnesota and North Dakota banks. The newly merged bank maintained the Arizona charter and kept the name, BNC National Bank.

BNC's assets as of September 30, 2007 total \$624 million. BNC is owned by BNCCORP, Inc a publicly traded company that provides a broad range of banking, brokerage, trust and other financial services primarily through BNC. BNCCORP, Inc is headquartered in Bismarck, North Dakota and has \$622 million in total assets.

BNC's primary lending focus is on commercial and commercial real estate lending. As of September 30, 2007, construction and development loans represent 32% of total loans outstanding, commercial real estate loans equal 27%, and commercial loans equal 23%. In total, commercial and commercial real estate loans represent 82% of the bank's total gross loans.

Net loans represent 74% of bank assets. Tier One Capital for the bank is 12.15% of average assets, or \$79.5 million. There are no legal impediments that would restrict the bank's ability to meet credit needs of its communities.

The most recent CRA examination for BNC National Bank is dated April 14, 2004. The bank received a "Satisfactory" rating.

Ratings

The bank's overall rating is a blend of the state ratings. We placed the most weight on the performance in the state of North Dakota because loan volume was the greatest, followed by the states of Arizona and Minnesota, receiving equal weight in arriving at the overall bank ratings. These three AAs were selected for full-scope reviews. The least weight was placed on the rural North Dakota AAs with limited-scope reviews conducted. This was due to the volume of loans originated at the various bank locations during the evaluation period. Refer to Appendix A 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.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

LENDING TEST

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance given the size, financial condition, AA needs, and local economic conditions. Over the past 14 quarters, since the bank's last CRA examination, the bank's quarterly LTD ratio averaged 75.6%. The LTD ratio has ranged from as high as 88% to as low as 68.2%.

Table 2 compares BNC's LTD ratio with seven other similarly situated financial institutions in the Phoenix, Arizona area. The LTD ratios of these institutions range from 62.8% to 128.3%. BNC's LTD ratio ranks lower among comparable banks than they did at the last CRA examination due to the discontinuation of the mortgage loan transit program in early 2007. The discontinuation of this program caused a significant decrease in loan volume explaining the lower LTD.

Institution	Assets as of 9/30/07 (\$000s)	Average LTD Ratio (%)
First National Bank of Arizona	2,940,398	128.33%
Desert Hills Bank	486,157	106.71%
Meridian Bank, National Association	2,212,776	98.74%
Choice Bank	224,682	94.75%
The Harris Bank National Association	473,744	86.15%
Bank of Arizona, National Association	196,707	76.43
BNC National Bank	623,739	75.59%
Parkway Bank Arizona	81,572	62.78%

Source: Call report data as of September 30, 2007.

Lending in Assessment Area

BNC's lending within its AAs meets the standard for satisfactory performance. A majority of loans are made in the bank's AAs at 85% by number and 83% by dollar volume of loans reviewed. The following table illustrates lending activity during 2005, 2006, and through September 30, 2007.

Table 3 – Lending in BNC's AAs												
Loan Type	Number of Loans				Total	Dollars of Loans				Total		
	Inside		Outside			Inside		Outside				
	#	%	#	%		\$	%	\$	%			
Business Loans	91	85.05	16	14.95	107	14,049	90.79	1,425	9.21	15,474		
HMDA Loans	359	85.68	60	14.32	419	74,777	81.67	16,779	18.33	91,556		
Totals	450	85.55	76	14.45	526	88,826	82.99	18,204	17.01	107,030		

Source: HMDA reportable loans and business loan sample.

Responses to Complaints

The bank has not received any CRA related complaints during this evaluation period.

STATE OF ARIZONA

Phoenix MSA

Overall CRA Rating for Arizona: Needs to Improve

The Lending test is rated: Needs to Improve

The Community development test is rated: Outstanding

The factors that support this rating include:

- Participation in community development activities displays an excellent responsiveness to meeting the needs of low- and moderate-income individuals and promotion of economic development in the Phoenix AA.
- Geographic distribution indicates excellent dispersion in the low- and moderate-income census tracts of the Phoenix AA for small business loans and poor dispersion for residential real estate loans.
- Borrower distribution reflects poor penetration in lending to individuals with low- and moderate-income and businesses with revenues of \$1 million or less.

DESCRIPTION OF THE PHOENIX ASSESSMENT AREA

BNC's Phoenix, Arizona AA consists of the entire Phoenix – Mesa – Scottsdale, AZ MSA. This MSA includes the counties of Maricopa and Pinal. It is the largest MSA in the state of Arizona. The bank has four locations within the MSA, two in Phoenix and two in Scottsdale. The AA meets the requirements of the regulation.

Based on the 2000 census there are 696 census tracts (CTs) in the MSA. Of the 696 CTs, 43 are designated as low-income, 199 are moderate-income, 238 are middle-income, 210 are upper-income, and 6 tracts are listed as "N/A." The 2007 Department of Housing and Urban Development (HUD) estimated median family income is \$60,100.

The MSA has a diversified economic base. Manufacturing is a leading industry, with electronics as a strong component. Tourism is also a strong income producer in the area. Major employers located in the MSA include the State of Arizona, Banner Health Systems, Honeywell International, the City of Phoenix, Maricopa County, Arizona State University, and Wal-Mart stores.

Table 4 illustrates the demographics of the AA.

Table 4: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE PHOENIX AA	
<i>Population</i>	
Number of Families	814,264
Number of Households	1,194,461
% of Low-Income Families	19.6%
% of Moderate-Income Families	18.8%
% of Middle-Income Families	21.8%
% of Upper-Income Families	39.8%
<i>Geographies</i>	
Number of Census Tracts/BNA	696
% Low-Income Census Tracts/BNA	6.2%
% Moderate-Income Census Tracts/BNA	28.6%
% Middle-Income Census Tracts/BNA	34.2%
% Upper-Income Census Tracts/BNA	30.2%
NA	0.8%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$51,172
2007 HUD-Adjusted MFI	\$60,100
<i>Economic Indicators</i>	
2003 Unemployment Rate	2.4%
2002 Median Housing Value	\$127,589
% of Households Below Poverty Level	9.9%

** Table is based on 2000 census information with updated information when available.

Competition for financial services is strong with over 70 institutions holding nearly \$57 billion in deposits. According to the Federal Deposit Insurance Corporation's (FDIC) June 30, 2007 deposit market share report, three large nationwide banks control 63.4% of the deposit market. Based on June 30, 2007 market share data, BNC has a 0.23% share of the deposit market within the MSA.

Community contacts were made with government organizations and non-profit affordable housing organizations. These contacts indicated a need in the Phoenix-Mesa-Scottsdale MSA for more affordable housing units. Contacts stated that there are ample opportunities for banks to participate in community development in the area.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

BNC's lending to businesses of different sizes and borrowers of different incomes demonstrates poor penetration.

Borrower Distribution of Business Loans

BNC's lending to businesses of different sizes does not meet the standard for satisfactory performance. Lending to businesses with revenues of \$1 million or less is lower than the demographics of the AA for the number and dollar volume of loans. The following table illustrates the bank's borrower distribution of business loans in the AA.

Table 5 – Borrower Distribution of Loans to Businesses in Phoenix of AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	62.71%	5.18%	32.11%	100%
% of Bank Loans in AA by #	30.43%	69.57%	0%	100%
% of Bank Loans in AA by \$	14.08%	85.92%	0%	100%

Source: Business loan sample; Dunn and Bradstreet data.

Borrower Distribution of Residential Real Estate Loans

BNC's residential real estate lending in the Phoenix AA does not meet the standard for satisfactory performance. Primary reliance is placed on home purchase and refinance as 50% and 47%, respectively, of the HMDA loans reported during the evaluation period were these types of loans. Only three home improvement loans were originated in the Phoenix AA during the evaluation period.

Lending to low- and moderate-income borrowers is below the demographics of the AA. There are no home purchase or home improvement loans to low-income borrowers and refinance loans are minimal at 3.2%. In addition, there are no home improvement loans to moderate-income borrowers. Demographic information indicates 9.9% of the AA population is below the poverty level. The table below displays the lending compared to the demographics of the AA.

Table 6 – Borrower Distribution of Residential Real Estate Loans in Phoenix AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families
Home Purchase	19.6%	0%	18.8%	11.9%	21.8%	17.9%	39.8%	70.2%
Home Improvement	19.6%	0%	18.8%	0%	21.8%	33.3%	39.8%	66.7%
Refinance	19.6%	3.2%	18.8%	12.9%	21.8%	12.9%	39.8%	71%

Source: Data reported under HMDA; U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of BNC's loans in the Phoenix AA reflects reasonable dispersion.

Business Loans

The geographic distribution of business loans in the Phoenix AA exceeds the standard for satisfactory performance. Performance in the moderate-income geographies exceeds the demographics of the AA and is comparable in the low-income geographies. The following table depicts the lending practices of the bank during the evaluation period.

Table 7 – Geographic Distribution of Loans to Businesses in Phoenix AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of Number of Loans
Small Business	5.2%	4.0%	24.4%	44.0%	31.5%	16.0%	38.9%	36.0%

Source: Business loan sample.

Residential Real Estate Loans

BNC's overall geographic distribution of residential real estate loans does not meet the standard for satisfactory performance. Home purchase loans to borrowers in the low-income geographies exceed the demographic information of the AA. However, no home improvement or refinance loans were made to borrowers in the low-income tracts. According to the demographic information for this area, there are a relatively low number of owner-occupied housing units in the low-income CTs.

All residential real estate loan types to borrowers in moderate-income CTs are below the demographics of the AA. No home improvement loans were made to borrowers located in moderate-income CTs. As previously mentioned, only three home improvement loans were made during the evaluation period. The following table illustrates BNC's geographic lending performance.

Table 8 - Geographic Distribution of Residential Real Estate Loans in Phoenix AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.6%	4.9%	24.0%	9.8%	39.2%	34.2%	35.2%	51.2%
Home Improvement	1.6%	0%	24.0%	0%	39.2%	0%	35.2%	100%
Refinance	1.6%	0%	24.0%	6.5%	39.2%	27.3%	35.2%	66.2%

Source: Data reported under HMDA; U.S. Census data.

Community Development (CD) Test

The bank's performance under the community development test in the Phoenix AA demonstrates excellent responsiveness to the needs of the community.

Number and Amount of Community Development Loans

BNC's performance in extending CD loans is excellent. The bank originated two CD loans in the Phoenix AA totaling \$3 million during the evaluation period. This is equivalent to 14.8% of the allocated Tier One Capital as of September 30, 2007 for this AA. As of November 15, 2007, the balance on these loans was \$1.6 million with \$800 thousand additional in commitments. These loans are for the purpose of housing and services to low- and moderate-income individuals.

Number and Amount of Qualified Investments

BNC's level of qualified investments demonstrates an excellent responsiveness to the needs of the community. During the evaluation period, the bank invested in FNMA pools totaling \$3.4 million secured by loans to low- and moderate-income borrowers that are in the Phoenix AA. These represent 16.6% of the allocated Tier One Capital level of this area.

Extent to Which the Bank Provides Community Development Services

BNC's participation in community development services is satisfactory. In addition to the numerous deposit and loan products offered, bank employees were involved with CD services that benefited five organizations related to affordable housing and social services for low- and moderate-income individuals.

Responsiveness to Community Development Needs

As evident by the participation in community development loans and services, the bank is responsive to the need of affordable housing of the Phoenix AA as identified through community contacts.

STATE OF NORTH DAKOTA

Bismarck MSA and Rural ND AAs

Overall CRA Rating for North Dakota: Satisfactory

The Lending test is rated: Satisfactory

The Community development test is rated: Outstanding

The factors that support this rating include:

- Community development activity is outstanding in the state of North Dakota with qualified CD loans totaling 7% of the allocated Tier One Capital in the Bismarck AA and 90% in the rural North Dakota AAs.
- Borrower distribution is comparable to the demographic information for lending to individuals with low- and moderate-income and businesses with revenues of \$1 million or less, in the North Dakota AAs.
- Geographic distribution demonstrates reasonable dispersion to businesses in the low- and moderate-income census tracts.
- Lending activity in the rural North Dakota AAs is not inconsistent with performance in the Bismarck AA.

DESCRIPTION OF THE BISMARCK ASSESSMENT AREA

BNC's Bismarck, North Dakota AA consists of the entire Bismarck MSA. The MSA is made up of Burleigh County and Morton County of North Dakota. The bank has three full service branches located within the AA. The city of Bismarck is the largest city in the MSA and the second largest city in North Dakota with a 2000 census population of 55,532. The city of Mandan is adjacent to Bismarck and had a 2000 census population of 16,718. The two cities contain over 76% of the MSA population.

Based on the 2000 census there are 21 CTs in the MSA. Of the 21 CTs, there are no tracts designated as low-income, four are moderate-income, 15 are middle-income, and two are upper-income. The 2007 HUD estimated median family income is \$65,400.

The MSA is a regional hub for healthcare, retail, and service industries. Bismarck is the State capital of North Dakota and the MSA has a substantial federal, state and local government workforce. The largest employers in the MSA are private and include Medcenter One Health Systems, St. Alexius Medical Center, and Bobcat/Ingersoll Rand.

Table 9 below illustrates the demographics of the AA.

Table 9: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE BISMARCK AA	
<i>Population</i>	
Number of Families	25,265
Number of Households	37,620
% of Low-Income Families	17.4%
% of Moderate-Income Families	18.5%
% of Middle-Income Families	27.3%
% of Upper-Income Families	36.8%
<i>Geographies</i>	
Number of Census Tracts/BNA	21
% Low-Income Census Tracts/BNA	0.0%
% Moderate-Income Census Tracts/BNA	19.1%
% Middle-Income Census Tracts/BNA	71.4%
% Upper-Income Census Tracts/BNA	9.5%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$49,944
2007 HUD-Adjusted MFI	\$65,400
<i>Economic Indicators</i>	
Unemployment Rate	2.0%
2000 Median Housing Value	\$83,418
% of Households Below Poverty Level	9.6%

** Table is based on 2000 census information with updated information when available.

BNC faces significant competition throughout the AA. Per the FDIC's June 30, 2007 deposit market share report, five banks control about 71% of the deposit base. BNC ranks fifth in deposit market share in the AA with an 8.61% share.

We reviewed several community contacts throughout the bank's AA. These contacts included community economic development organizations, state and federal government agencies, and other local non-profit agencies. Contacts mentioned the need for agriculture operating loans, business start-up financing and affordable housing loans. These contacts felt that the local banks are meeting the needs of the community.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

BNC's lending to businesses of different sizes and borrowers of different incomes reflect reasonable penetration.

Borrower Distribution of Business Loans

BNC's lending to businesses of different sizes meets the standard for satisfactory

performance. Sixty-two percent of the dollar volume and 56.5% of the number of loans are to businesses with revenues of \$1 million or less. This is comparable to the 60.7% of businesses in the AA having revenues of \$1 million or less. The following table illustrates the bank's borrower distribution of business loans in the AA.

Table 10 - Borrower Distribution of Loans to Businesses in Bismarck AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	60.7%	5.5%	33.8%	100%
% of Bank Loans in AA by #	56.5%	43.5%	0%	100%
% of Bank Loans in AA by \$	61.9%	38.1%	0%	100%

Source: Business loan sample; Dunn and Bradstreet data.

Borrower Distribution of Residential Real Estate Loans

BNC's residential real estate lending in the Bismarck AA meets the standard for satisfactory performance. No weight is placed more heavily on any one loan type as the HMDA loan originations are evenly distributed.

Home purchase and home improvement lending to moderate-income borrower, is slightly below but considered comparable to the demographics of the AA. No loans for refinance were extended to these borrowers during the evaluation period. Lending to low-income borrowers is below the demographic information, but mitigated due to the higher level of difficulty for these borrowers to qualify for home loans. In the AA, 5.7% of families are below the poverty level. The following table displays the bank's lending performance in comparison to the demographics of the AA.

Table 11 - Borrower Distribution of Residential Real Estate Loans in Bismarck AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	17.4%	10%	18.5%	13.3%	27.3%	16.7%	36.8%	60%
Home Improvement	17.4%	5.7%	18.5%	11.4%	27.3%	34.3%	36.8%	48.6%
Refinance	17.4%	6.5%	18.5%	0%	27.3%	38.7%	36.8%	54.8%

Source: Data reported under HMDA; U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of BNC's loans in the Bismarck AA demonstrates reasonable dispersion.

Business Loans

The geographic distribution of business loans in the Bismarck AA meets the standard for satisfactory performance. There are no lower-income geographies in this AA.

Performance in the moderate-income geographies is somewhat lower but considered comparable to the demographics of the AA given the location of the bank offices to these moderate-income CTs. The following table depicts the lending practices of the bank during the evaluation period.

Table 12 - Geographic Distribution of Loans to Businesses in Bismarck of AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Small Business	NA	NA	20.1%	12.5%	71.2%	87.5%	8.7%	0%

Source: Business loan sample; U.S. Census data.

Residential Real Estate Loans

BNC's geographic distribution of residential real estate loans does not meet the standard for satisfactory performance. Home improvement loans to borrowers in the moderate-income geographies are slightly below to the demographic information of the AA and home improvement and refinance loans are well below. The following table illustrates BNC's geographic lending performance.

Table 13 - Geographic Distribution of Residential Real Estate Loans in Bismarck AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	NA	NA	19.6%	5.3%	69.1%	71%	11.3%	23.7%
Home Improvement	NA	NA	19.6%	17.1%	69.1%	74.3%	11.3%	8.6%
Refinance	NA	NA	19.6%	8.6%	69.1%	62.9%	11.3%	28.6%

Source: Data reported under HMDA; U.S. Census data.

Community Development Test

The bank's performance under the community development test in the state of North Dakota is rated Outstanding. Performance in the Bismarck MSA is satisfactory, and performance in the limited scope area is excellent.

Number and Amount of Community Development Loans

BNC's performance in extending CD loans is satisfactory. The bank originated two CD loans in the Bismarck AA totaling \$1.7 million during the evaluation period. This is equivalent to 7% of the bank's allocated Tier One Capital as of September 30, 2007 for this AA. These loans were for economic development purposes.

Number and Amount of Qualified Investments

BNC's level of qualified investments demonstrates a satisfactory responsiveness to the community development needs of the AA. During the evaluation period, the bank had one investment for \$25 thousand for the purpose of small business development. Nearly \$57 thousand in additional funds were donated to a variety of organizations that provide services to low- and moderate-income individuals or promote economic development.

Extent to Which the Bank Provides Community Development Services

BNC's participation in community development services is excellent. Bank employees participate in a variety of CD service activities throughout the AA that benefit low- and moderate-income individuals and help promote economic development.

Responsiveness to Community Development Needs

As evident by the participation in community development loans, investments, and services, the bank is responsive to the identified need of economic development in the Bismarck AA.

Conclusions for Rural ND AAs Receiving Limited-Scope Review

BNC has seven branches, each with its own AA, located in rural communities in North Dakota. Because each of these AAs are rural and have similar performance context issues, we combined them for our analysis. Based on the lower volume of lending activity in each of these areas, they received a limited-scope review.

BNC's overall lending performance in the rural ND AAs is not inconsistent with the performance in the Bismarck AA. Community development activity is stronger than the performance in the Bismarck AA and had a positive impact on the state rating for North Dakota.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Lending to borrowers of different incomes and businesses of different sizes demonstrates excellent penetration.

Business Loans

BNC's lending performance to businesses of different sizes exceeds the demographic information for the rural North Dakota AAs. The following table displays the bank's excellent lending to small businesses.

Table 14 - Borrower Distribution of Loans to Businesses in Rural ND AAs				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	57.3%	5.7%	37%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	60.7%	39.3%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Borrower Distribution of Residential Real Estate Loans

BNC's residential real estate lending in the rural ND AAs is excellent. The following table displays the bank's lending performance in comparison to the demographics of the AAs.

Table 15 - Borrower Distribution of Residential Real Estate Loans in Rural ND AAs								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21.8%	40%	21.6%	0%	25.2%	0%	31.4%	60%
Home Improvement	21.8%	19.1%	21.6%	33.3%	25.2%	19%	31.4%	28.6%
Refinance	21.8%	11.1%	21.6%	44.5%	25.2%	33.3%	31.4%	11.1%

Source: Data reported under HMDA; U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of BNC's loans in the rural North Dakota AAs exceeds the standard for satisfactory performance.

Business Loans

The geographic distribution of business loans in the rural North Dakota AA is excellent. The following table depicts the lending practices of the bank during the evaluation period.

Table 16 - Geographic Distribution of Loans to Businesses in Rural ND AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Business	NA	NA	12%	55%	88%	45%	NA	NA

Source: Business loan sample; U.S. Census data.

Residential Real Estate Loans

BNC's geographic distribution of residential real estate loans meets the standard for satisfactory performance. The following table illustrates BNC's geographic lending performance.

Table 17 - Geographic Distribution of Residential Real Estate Loans in Rural ND AAs

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	NA	NA	14%	16.7%	86%	83.3%	NA	NA
Home Improvement	NA	NA	14%	0%	86%	100%	NA	NA
Refinance	NA	NA	14%	11.1%	86%	88.9%	NA	NA

Source: Data reported under HMDA; U.S. Census data.

Community Development Test

The bank's performance under the community development test in the rural North Dakota AAs is excellent.

Number and Amount of Community Development Loans

BNC's originated three CD loans in the rural North Dakota AAs totaling \$18.2 million during the evaluation period. This is equivalent to 90.1% of the allocated Tier One Capital as of September 30, 2007 for these AAs. These loans were for the economic development on North Dakota Indian Reservations.

Number and Amount of Qualified Investments

There are no qualified investments for the rural North Dakota AAs.

Extent to Which the Bank Provides Community Development Services

BNC's participation in community development services in the rural North Dakota AAs is adequate. A deposit program targeted to benefit low- and moderate-income individuals is offered throughout the branches in these AAs.

STATE OF MINNESOTA

Minneapolis/St. Paul AA

CRA Rating for Minnesota: Satisfactory
The Lending test is rated: Satisfactory
The Community development test is rated: Outstanding

The factors that support this rating include:

- Community development activity is outstanding in the state of Minnesota due to the high level of qualified CD loans and investments.
- Borrower distribution demonstrates a reasonable penetration to individuals with low- and moderate-income and businesses with revenues of \$1 million or less.
- Geographic distribution reflects reasonable dispersion by BNC to lend in the low- and moderate-income census tracts for both business and individual borrowers.

DESCRIPTION OF THE MINNEAPOLIS ASSESSMENT AREA

BNC's Minneapolis, Minnesota AA consists of the entire Minneapolis – St. Paul MSA. This MSA includes Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright Counties in Minnesota as well as Pierce and St. Croix Counties in Wisconsin. The bank has two locations in the MSA. One branch is located in downtown Minneapolis and the second branch is located in Golden Valley, MN.

Minneapolis and St. Paul are the largest cities in both the MSA and in the state. The population of Minneapolis in the 2000 census was 382,618. St. Paul's population was 287,151. Combined these two cities contain nearly 670,000 residents, or 23% of the MSA population.

Based on the 2000 census there are 728 CTs in the MSA. Of the 728 CTs, 47 are designated as low-income, 145 are moderate-income, 355 are middle-income, 176 are upper-income, and 5 tracts are designated as "NA". The 2007 HUD estimated median family income is \$78,500.

The MSA has a diversified economic base. It is the center for high-tech electronics, medical instruments, health care, finance, insurance, entertainment and the arts, and processing and transporting agricultural products. The area is home to eighteen FORTUNE 500 companies and several large private companies. The University of Minnesota is area's largest employer with over 34,000 employees. Other large employers include Target Corporation, Allina Health Systems, Fairview Health Services, Wells Fargo, US Bank, Ameriprise Financial, Inc., and state and local governments.

Table 18 on the next page illustrates demographic data of the AA.

Table 18: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE MINNEAPOLIS AA	
<i>Population</i>	
Number of Families	723,128
Number of Households	1,100,844
% of Low-Income Families	17.1%
% of Moderate-Income Families	18.9%
% of Middle-Income Families	26.3%
% of Upper-Income Families	37.8%
<i>Geographies</i>	
Number of Census Tracts/BNA	728
% Low-Income Census Tracts/BNA	6.5%
% Moderate-Income Census Tracts/BNA	19.9%
% Middle-Income Census Tracts/BNA	48.8%
% Upper-Income Census Tracts/BNA	24.2%
NA	0.7%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$64,885
2007 HUD-Adjusted MFI	\$78,500
<i>Economic Indicators</i>	
Unemployment Rate	2.0%
2003 Median Housing Value	\$145,292
% of Households Below Poverty Level	6.3%

** Table is based on 2000 census information with updated information when available.

Competition for deposits and all types of loans in this market, especially mortgage and commercial, is strong. There are 185 banks within the AA operating 855 offices and sharing almost \$64 billion in deposits. According to the FDIC's June 30, 2007 deposit market share report the two largest banks in the MSA have nearly 57% of all deposits. BNC has a 0.15% deposit market share.

Community contacts were reviewed from a variety of affordable housing, non-profit, and small business organizations. These contacts stated a need in the Minneapolis-St. Paul area for affordable home mortgages, home improvement loans, down payment assistance, and small business development loans. While the contacts mentioned several banks with a high degree of involvement in community development initiatives, they felt all banks have ample opportunities to participate in their communities.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

BNC's lending reflects reasonable penetration to businesses of different sizes and borrowers of different incomes.

Borrower Distribution of Business Loans

BNC's lending to businesses of different sizes meets the standard for satisfactory performance. The distribution of loans to businesses with revenues of \$1 million or less is comparable to the demographic information of the AA. The table below illustrates the bank's borrower distribution of business loans in the AA.

Table 19 - Borrower Distribution of Loans to Businesses in Minneapolis AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.6%	6.3%	27.1%	100%
% of Bank Loans in AA by #	66.7%	33.3%	0%	100%
% of Bank Loans in AA by \$	45.5%	54.5%	0%	100%

Source: Business loan sample; Dunn and Bradstreet data.

Borrower Distribution of Residential Real Estate Loans

In the Minneapolis AA, home mortgage products are not a primary target product. During this evaluation period, a total of 15 home purchase loans, 24 home improvement loans, and 11 refinance loans were extended.

BNC's level of residential real estate lending to low- and moderate-income families is overall satisfactory. Home purchase loans to low-income families are comparable to the demographics of the AA. However, no home improvement or refinance loans were made to these families. Home purchase and refinance loans to moderate-income families exceeds the demographic data of the Minneapolis AA and home improvement loans were below. This is partially attributed to a poverty rate of over 6% in this area and the increased difficulty in lower-income applicants qualifying for a home mortgage product. The following table depicts the bank's real estate lending in the AA compared to demographic data.

Table 20 – Borrower Distribution of Residential Real Estate Loans in Minneapolis AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	17%	15.4%	18.9%	23.1%	26.3%	23.1%	37.8%	38.4%
Home Improvement	17%	0%	18.9%	12.5%	26.3%	54.2%	37.8%	33.3%
Refinance	17%	0%	18.9%	27.3%	26.3%	27.3%	37.8%	45.4%

Source: Data reported under HMDA; U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of BNC's loans in the Minneapolis AA demonstrates adequate dispersion.

Business Loans

The geographic distribution of business loans in the Minneapolis AA meets the standard for satisfactory performance. Lending to businesses in low- and moderate-income geographies is comparable to the demographic information of the Minneapolis AA. The following table displays the lending practices of the bank during the evaluation period.

Table 21 - Geographic Distribution of Loans to Businesses in Minneapolis AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Business	4.1%	4.6%	15.7%	13.6%	54.3%	59.1%	25.9%	22.7%

Source: Business loan sample.

Residential Real Estate Loans

BNC's geographic distribution of residential real estate loans meets the standard for satisfactory performance. Home purchase and home improvement loans to borrowers in the low-income geographies exceed the demographic information of the AA. However, no refinance loans were made to low-income borrowers during the evaluation period. In the moderate-income tracts, BNC's lending is comparable for home improvement loans and below for home purchase and refinance loans. In the low-income CTs, less than 25% of the housing units are owner-occupied and less than 50% in the moderate-income tracts. The majority of housing units are rental or vacant. The following table illustrates BNC's geographic lending performance.

Table 22 - Geographic Distribution of Residential Real Estate Loans in Minneapolis AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.5%	13.3%	13.4%	6.7%	56.2%	40%	28.9%	40%
Home Improvement	1.5%	4.2%	13.4%	16.7%	56.2%	70.8%	28.9%	8.3%
Refinance	1.5%	0%	13.4%	9.1%	56.2%	45.5%	28.9%	45.4%

Source: Data reported under HMDA; U.S. Census data.

Community Development Test

The bank's performance under the community development test in the Minneapolis AA is rated Outstanding.

Number and Amount of Community Development Loans

BNC's performance in extending CD loans is excellent. The bank originated four CD loans in the Minneapolis AA totaling \$17.8 million during the evaluation period. This is

equivalent to 123% of the allocated Tier One Capital as of September 30, 2007 for this AA. These loans are for the purposes of housing for low- and moderate-income individuals and economic development.

Number and Amount of Qualified Investments

BNC's level of qualified investments demonstrates an excellent responsiveness to the community development needs of the AA. During the evaluation period, the bank had two investments totaling \$4.8 million for the purpose of small business development and low- and moderate-income housing. In addition, over \$52 thousand in additional funds were donated to a variety of organizations that target low- and moderate-income individuals or promote economic development. This is equivalent to 34% of the Minneapolis AA allocated Tier One Capital.

Extent to Which the Bank Provides Community Development Services

BNC's participation in community development services is satisfactory. Bank employees participate in activities in the AA that benefit low- and moderate-income individuals and help promote economic development.

Responsiveness to Community Development Needs

As evident by the participation in community development activities, the bank is responsive to the needs of affordable housing and small business development in the Minneapolis AA as identified by community contacts.

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").

Time Period Reviewed	Lending Test: (01/01/05 to 09/30/07) Community Development Test: (04/15/04 to 11/15/07)	
Financial Institution		Products Reviewed
BNC National Bank (BNC) Phoenix, Arizona		Business Loans Residential Real Estate Loans
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Phoenix MSA #38060	Full-Scope	
Minneapolis/St. Paul MSA #33460	Full-Scope	
Bismarck/Mandan MSA #13900	Full-Scope	
Rural North Dakota	Limited-Scope	Dickey, Divide, Emmons, McKenzie, McLean, Mountrail, Ward Counties of ND

Appendix B: Summary of State Ratings

Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State
BNC National Bank	Satisfactory	Outstanding	Satisfactory
State Ratings:			
Arizona	Needs to Improve	Outstanding	Needs to Improve
North Dakota	Satisfactory	Outstanding	Satisfactory
Minnesota	Satisfactory	Outstanding	Satisfactory