



## PUBLIC DISCLOSURE

August 20, 2013

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American Federal Bank  
Charter Number 702983

215 North Fifth Street  
Fargo, ND 58102

Office of the Comptroller of the Currency

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Minneapolis, MN 55402-3393

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, 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: Satisfactory.**

The major factors supporting the institution's rating include:<sup>1</sup>

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and in comparison to other similarly situated banks.
- The bank originates a substantial majority of its loans to borrowers located within its designated assessment areas (AAs).
- A reasonable distribution of loans among individuals of different income levels.
- An excellent geographic dispersion of loans throughout the bank's AAs.
- Reasonable responsiveness to community development needs through qualified loans, investments, and services.

**Scope of Examination**

We evaluated American Federal Bank's (American Federal) Community Reinvestment Act (CRA) performance utilizing intermediate small bank performance standards. We conducted full-scope reviews for each of the bank's four AAs. The lending test analysis is based on the bank's primary loan products for the period January 1, 2011 through June 30, 2013. The evaluation period for community development (CD) activity is January 1, 2010 through June 30, 2013. The following table depicts the volume of loans made during the evaluation period:

<b>Table 1: American Federal Loan Originations and Purchases in 1/1/11-6/30/13</b>		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Agricultural Loans	32%	45%
Home Mortgage Loans	36%	31%
Commercial Loans	12%	22%
Consumer Loans	20%	2%

*Source: Bank Loan Origination Report*

For purposes of this evaluation, we determined the bank's primary loan products to be agricultural loans for all four AAs as well as home mortgage loans in three of the bank's AAs. Together these loan types represented 68 percent of loans by volume and 76 percent of loans by dollar amount.

We used a combination of Home Mortgage Disclosure Act (HMDA) data and loan samples to analyze lending test performance. American Federal is a HMDA reporter so we utilized HMDA data for 2011, 2012, and year-to-date June 30, 2013 in our analysis

<sup>1</sup> The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states and multistate metropolitan areas.

of home mortgage loans. Of the HMDA reportable loans, home refinance is the bank's leading product at 58 percent, followed by home purchase at 32 percent, and finally home improvement loans which represent only 10 percent of HMDA reportable loans. As such, our analysis focused on home refinance and home purchase loans. Prior to the start of the examination, we conducted a HMDA data integrity review to ensure the accuracy of the reported information. We found the data to be reliable for use in our evaluation.

We conducted sampling of agricultural loans to assess the bank's performance in the different AAs. Our sampling included a total of 160 loans, which consisted of 40 agricultural loans from each of the bank's four AAs. Due to census data changes, we completed a separate analysis for 2011 lending data which is compared to 2000 census data and 2012-2013 lending data which is compared to 2010 census data. As such, we sampled 20 loans each for the lending periods of 2011 and 2012-2013 for each AA.

## Description of Institution

American Federal is a \$461 million federally chartered stock savings association with a corporate office located in Fargo, North Dakota. The bank is wholly owned by American Federal Corporation, a one-bank holding company. American Federal currently operates 13 branch offices throughout the Red River Valley in eastern North Dakota and northwestern Minnesota. The North Dakota branch office locations include two branches in Fargo and one branch each in Grand Forks, Northwoods, and Wahpeton. The Minnesota branch office locations include one branch each in Crookston, Ada, Moorhead, Warren, Hallock, Fergus Falls, Fosston, and East Grand Forks.

American Federal offers a variety of loan and deposit products and services with a focus on agricultural lending. The agricultural industry dominates lending opportunities as several branch offices are located in rural areas. As a traditional thrift institution, American Federal also originates a moderate volume of residential mortgage loans. The bank holds some residential mortgage loans in portfolio and sells a number of loans to the secondary market, including conventional, FHA, VA, Rural Development, and loans through the MN Fix-Up Fund. The Fix-Up Fund is a statewide program through Minnesota Housing that offers affordable, low-interest fixed rate home improvement loans.

The following table illustrates the bank's loan portfolio composition as of June 30, 2013:

<b>Loan Portfolio Composition</b>	<b>\$000</b>	<b>%</b>
Agricultural	\$173,621	45.76%
Commercial	\$123,094	32.44%
Residential Real Estate	\$77,373	20.39%
Consumer	\$5,347	1.41%
<b>Total Loans</b>	<b>\$379,435</b>	<b>100%</b>

Source: June 30, 2013 Call Report Data

We did not identify any financial, legal, or other factors that would impede the bank's ability to serve the credit needs of its AAs. American Federal received a "Satisfactory" rating during the previous CRA evaluation dated April 11, 2010.

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

In each state and multistate metropolitan area where the bank has an office, a sample of AAs within that state/multistate metropolitan area was selected for full-scope reviews. Refer to the "Scope" section under each State and Multistate Metropolitan Area Rating section for details regarding how the areas were selected.

American Federal has four AAs, including the Fargo-Moorhead, ND-MN Multistate MSA (MMSA), Grand Forks, ND-MN MMSA, Minnesota Non-MSA, and North Dakota Non-MSA. We selected all four AAs for full-scope review to ensure a full-scope review was completed for at least one AA in each state and MMSA where the bank has an office.

## **Ratings**

The bank's overall rating is a blend of the multistate metropolitan area ratings and state ratings. The Fargo-Moorhead MMSA, Grand Forks MMSA, and State of Minnesota were all weighted equally in determining the bank's overall rating. The State of North Dakota received the least weight in determining the bank's overall rating given that this rated area represents the least deposit and loan origination volume and has the least number of branches.

The institution's CRA rating takes into account the ratings in different states/multistate metropolitan areas by considering:

- The significance of the bank's activities in each state/multistate metropolitan area compared with the bank's overall activities.
- The lending opportunities in each state/multistate metropolitan area.
- The importance of the bank in providing loans to each state/multistate metropolitan area, particularly in light of the number of other institutions and the extent of their activities in each state/multistate metropolitan area.
- Demographic and economic conditions in each state/multistate metropolitan area.

## **Conclusions with Respect to Performance Criteria**

American Federal's performance under the Lending Test is Satisfactory. American Federal's loan-to-deposit ratio is more than reasonable and a substantial majority of the bank's loans were originated inside the designated AAs. Although the bank's distribution of lending reflects poor penetration among farms of different sizes, the distribution of lending reflects reasonable penetration among borrowers of different income levels when compared to aggregate lending data. The geographic distribution of loans reflects excellent dispersion throughout the bank's AAs.

## Loan-to-Deposit Ratio

American Federal's LTD ratio is more than reasonable given the bank's size, financial condition, and in comparison to other similarly situated banks. Similarly situated banks include those operating in and around the bank's AAs and ranging in asset size from \$330 million to \$620 million. The bank's average LTD ratio from January 1, 2010 to June 30, 2013 was 104.72 percent. The LTD ratio ranged from a quarterly high of 123.36 percent to a quarterly low of 93.75 percent during this period. The table below illustrates the LTD ratios among similarly situated banks within the bank's AA.

<b>Average Loan-to-Deposit Ratio (6/30/13)</b>		<b>Total Assets (\$000s)</b>	<b>Average LTD Ratio</b>
<b>Institution</b>	<b>Headquarters</b>		
Midwest Bank #9737 (Fargo & MN AA)	Detroit Lakes, MN	337,397	98.28%
Border State Bank #15684 (MN AA)	Greenbush, MN	345,804	81.99%
BlackRidge Bank #58580 (Fargo AA)	Fargo, ND	356,538	91.66%
<b>American Federal Bank #29140 (Fargo AA)</b>	<b>Fargo, ND</b>	<b>460,805</b>	<b>104.72%</b>
Bank Forward #8941 (GF AA)	Hannaford, ND	480,627	94.20%
Western State Bank #9123 (Fargo AA)	Devils Lake, ND	619,836	92.11%

Source: Call Report Data

## Lending in Assessment Area

American Federal originates a substantial majority of its loans to borrowers located within its designated AAs. The bank originated 85 percent of loans by number and 83 percent of loans by dollar volume within it's AA. The following table illustrates the number and dollar amount of loans originated inside and outside the bank's AAs:

<b>Lending in American Federal's AAs</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
HMDA loans	897	85.0	158	15.0	1,055	137,417	81.9	30,464	18.1	167,881
Farm Loans	135	84.4	25	15.6	160	32,453	88.1	4,400	11.9	36,853
Totals	1,032	84.9	183	15.1	1,215	169,870	83.0	34,864	17.0	204,734

Source: Loan Sample; 2011-2013 HMDA Data

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

Pursuant to 12 C.F.R. 195.28(c), in determining a Federal savings association's (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any assessment area by an affiliate whose loans have been considered as part of the FSA's lending performance.

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

## Multistate Metropolitan Area Rating

### Fargo-Moorhead, ND-MN MMSA

**CRA Rating for the Fargo-Moorhead MMSA<sup>2</sup>: Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting the institution's multistate metropolitan rating include:

- Reasonable loan distribution among borrowers of different income levels.
- Excellent geographic dispersion of loans throughout the AA.
- Reasonable responsiveness to community development needs through community development loans, qualified investments, and services.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN FARGO-MOORHEAD MMSA

The Fargo-Moorhead AA includes the entire MMSA which consists of Cass County in North Dakota and Clay County in Minnesota. The bank has three branches within the AA, including its main office in downtown Fargo, ND. The other branches are located in South Fargo and Moorhead, MN.

Summarized on the following page are the demographics for the area based on 2000 and 2010 census data. We utilized both sets of census data information given the timing of our evaluation period for lending activities. It should be noted that the census tract composition changed slightly between the 2000 and 2010 censuses. Specifically, the number of census tracts increased from 40 to 46, and the number of low-income tracts increased from zero to two while the moderate-income tracts increased from six to seven.

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<sup>2</sup>This rating reflects performance within the multistate metropolitan area. The statewide evaluations do not reflect performance in the parts of those states contained within the multistate metropolitan area.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE FARGO-MOORHEAD, ND-MN MMSA (2000)</b>	
Population	174,367
Number of Families	42,527
Number of Households	69,950
% of Low-Income Families	17.69
% of Moderate-Income Families	18.73
% of Middle-Income Families	26.50
% of Upper-Income Families	37.08
<b>Geographies</b>	
Number of Census Tracts	40
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	15
% Middle-Income Census Tracts	72.5
% Upper-Income Census Tracts	12.5
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$50,758
2011 HUD-Adjusted MFI	\$69,400
<b>Economic Indicators</b>	
2011 Unemployment Rate	4%
2000 Median Housing Value	\$89,182
% of Households Below Poverty Level	12%

*Source: 2000 U.S. Census data with updated information when available*

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE FARGO-MOORHEAD, MN-ND MMSA (2010)</b>	
Population	208,777
Number of Families	48,919
Number of Households	84,600
% of Low-Income Families	18.15
% of Moderate-Income Families	17.92
% of Middle-Income Families	24.84
% of Upper-Income Families	39.09
<b>Geographies</b>	
Number of Census Tracts	46
% Low-Income Census Tracts	4.35
% Moderate-Income Census Tracts	15.22
% Middle-Income Census Tracts	60.87
% Upper-Income Census Tracts	19.57
<b>Median Family Income (MFI)</b>	
2010 MFI for AA	\$67,695
2013 HUD-Adjusted MFI	\$73,800
<b>Economic Indicators</b>	
2012 Unemployment Rate	3.6%
2010 Median Housing Value	\$146,683
% of Households Below Poverty Level	14%

*Source: 2010 U.S. Census data with updated information when available*

Competition in the market area is strong. There are numerous financial institutions competing for products and services in the area, both local and non-local. According to the June 30, 2012 FDIC Deposit Market Share Report, the top four financial institutions based on market share (State Bank & Trust, Wells Fargo NA, US Bank NA, and Bremer Bank NA) comprise 58.48 percent of the deposit market share within the AA. Thus, there is no one dominant leader and the resulting competition for deposits is strong. American Federal ranks 9th out of 29 institutions in the market with 2.77 percent of the deposit market share.

In general, the current economy in North Dakota is growing and has maintained a very low unemployment rate of 3 percent, which is well below the national average of 8 percent. This is due to strong farming and oil production over the past few years. The economy in Fargo is diversified with agriculture, food processing, manufacturing, technology, health care facilities, and three area Universities. The three Universities provide a large student population which helps increase retail sales and part-time jobs.

We reviewed two community contacts conducted as part of a recent CRA examinations in the Fargo area. Community members noted that the economy in North Dakota, and specifically the Fargo-Moorhead area, has been on a growing trend since the early 2000s. The strong economy is boosted primarily by the oil production in the Bakken Formation in Western North Dakota.

Both contacts noted the need for venture funding for new start-ups and technology companies that are unable to show an immediate ability to repay. Most banks in the region are conservative and want to see consistent revenue streams before lending to these companies. Another opportunity that was noted by both contacts was lending programs sponsored by the Greater Fargo-Moorhead Economic Development Corporation. Several of these programs work with the Bank of North Dakota, who acts as a participant and guarantor on the loans. One such program is the Partnership in Assisting Community Expansion (PACE) program which helps communities expand their economic base by providing new job development.

## **SCOPE OF EVALUATION IN FARGO-MOORHEAD MMSA**

American Federal has only one AA in the Fargo-Moorhead MMSA rated area, consisting of the entire MSA. As such, we conducted a full-scope review of the Fargo-Moorhead MMSA and there were no AAs receiving limited-scope reviews in the rated area.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN FARGO-MOORHEAD MMSA**

American Federal's CRA performance in the Fargo-Moorhead MMSA is Satisfactory. The bank's performance is satisfactory under both the lending test and the community development test.

## LENDING TEST

The bank's performance under the lending test in the Fargo-Moorhead MMSA is Satisfactory.

### Borrower Distribution of Agricultural Loans

The distribution of agricultural loans reflects very poor penetration among farms of different sizes in 2011. The number and amount of bank loans to farms with revenues less than or equal to a million dollars does not meet the performance of aggregate lenders and is significantly below the area demographics. The following table illustrates American Federal's lending to farms of different sizes in 2011:

<b>2011 Borrower Distribution of Loans to Farms in Fargo-Moorhead MMSA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.31%	1.55%	1.14%	100%
Aggregate Lending data	66.42%	33.58%	0.00%	100%
% of Bank Loans in AA by #	35.00%	65.00%	0.00%	100%
% of Bank Loans in AA by \$	14.79%	85.21%	0.00%	100%

*Source: Loan Sample, 2011 Peer Data, 2011 Business & Geodemographic Data*

The distribution of agricultural loans reflects poor penetration among farms of different sizes in 2012-2013. The number and amount of bank loans to farms with revenues less than or equal to a million dollars does not meet the performance of aggregate lenders and is significantly below the area demographics. The following table illustrates American Federal's lending to farms of different sizes in 2012-2013:

<b>2012-2013 Borrower Distribution of Loans to Farms in Fargo-Moorhead MMSA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.02%	1.69%	0.66%	100%
Aggregate Lending data	66.42%	33.58%	0.00%	100%
% of Bank Loans in AA by #	54.00%	55.00%	0.00%	100%
% of Bank Loans in AA by \$	29.54%	70.46%	0.00%	100%

*Source: Loan Sample, 2011 Peer Data, 2013 Business & Geodemographic Data*

### Borrower Distribution of Home Mortgage Loans

The distribution of home loans reflects reasonable penetration among individuals of different income levels in comparison to aggregate lending data.

#### Home Purchase Loans

The distribution of home purchase loans reflects reasonable penetration among borrowers of different income levels in 2011. Lending to moderate-income borrowers exceeded the demographic comparative and is near to peer. While the distribution of

home purchase loans to low-income borrowers is lower than peer and significantly below the demographic comparative, we considered the level of families living below the poverty rate in the AA as these borrowers would likely not qualify for home loans. Families living below the poverty level total 12 percent. The following table shows the distribution of home purchase loans among borrowers of different income levels in 2011:

<b>2011 Borrower Distribution of Home Purchase Loans in Fargo-Moorhead MMSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	4.35	10.32	17.69
Moderate	26.09	27.80	18.73
Middle	34.78	27.62	26.50
Upper	34.78	34.26	37.08

*Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Demographic Data*

The distribution of home purchase loans reflects reasonable penetration among borrowers of different income levels in 2012-2013. Lending to low-income borrowers exceeds peer and is near the demographic comparative. Lending to moderate-income borrowers is poor in comparison to peer and the demographic comparative. The following table shows the distribution of home purchase loans among borrowers of different income levels in 2012-2013:

<b>2012-2013 Borrower Distribution of Home Purchase Loans in Fargo-Moorhead MMSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	12.2	10.32	18.15
Moderate	9.76	27.80	17.92
Middle	24.39	27.62	24.84
Upper	53.66	34.26	39.09

*Source: 2012 & YTD June 30, 2013 HMDA Data; 2011 Peer Lending Data; 2010 Demographic Data*

Home Refinance Loans

The distribution of home refinance loans reflects reasonable penetration among borrowers of different income levels in 2011. Lending to moderate-income borrowers exceeded the demographic comparative and is near to peer. While the distribution of home refinance loans to low-income borrowers is lower than peer and significantly below the demographic comparative, we considered the level of families living below the poverty rate in the AA as these borrowers would likely not qualify for credit. Families living below the poverty level total 12 percent. The following table shows the distribution of home refinance loans among borrowers of different income levels in 2011:

<b>2011 Borrower Distribution of Home Refinance Loans in Fargo-Moorhead MMSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	2.78	5.96	17.69
Moderate	19.44	18.21	18.73
Middle	36.11	28.71	26.50
Upper	41.67	47.12	37.08

Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Demographic Data

The distribution of home refinance loans reflects poor penetration among borrowers of different income levels in 2012-2013. Lending to low- and moderate-income borrowers was below peer and the demographic comparative. The following table shows the distribution of home refinance loans among borrowers of different income levels in 2012-2013:

<b>2012-2013 Borrower Distribution of Home Refinance Loans in Fargo-Moorhead MMSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	2.74	5.96	18.15
Moderate	12.33	18.21	17.92
Middle	26.03	28.71	24.84
Upper	58.90	47.12	39.09

Source: 2012 & YTD June 30, 2013 HMDA Data; 2011 Peer Lending Data; 2010 Demographic Data

**Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout the AA. For the 2011 lending analysis, the AA did not include any low-income census tracts. Therefore, our analysis focused on lending in the moderate-income census tracts. For the 2012-2013 analysis, the AA includes both low- and moderate-income tracts so our analysis focused on both areas. We noted that the aggregate lending data also showed no lending in low-income tracts in 2012-2013, and in both 2011 and 2012-2013 there was a very small percentage of aggregate lending in the moderate-income tracts. As such, this analysis was not meaningful and did not factor into our rating for the geographic distribution of loans in this area.

**Geographic Distribution of Agricultural Loans**

The geographic distribution of agricultural loans is poor. The bank did not originate any agricultural loans in the low- or moderate-income tracts in 2011 or in 2012-2013. The following two tables show the geographic distribution of farm loans:

<b>2011 Geographic Distribution of Loans to Farms in Fargo-Moorhead MMSA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Farms	0.00%	5.37%	83.08%	11.55%
Aggregate Lending Data	0.00%	1.78%	90.50%	7.72%
% of Number of Bank Loans	0.00%	0.00%	75.00%	25.00%

Source: Loan Sample; 2011 Peer Data; 2011 Business Geodemographic Data

<b>2012-13 Geographic Distribution of Loans to Farms in Fargo-Moorhead MMSA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Farms	0.15%	5.80%	73.25%	20.79%
Aggregate Lending Data	0.00%	1.78%	90.50%	7.72%
% of Number of Bank Loans	0.00%	0.00%	80.00%	20.00%

Source: Loan Sample; 2011 Peer Data; 2013 Business Geodemographic Data

### Geographic Distribution of Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent penetration throughout the AA.

#### Home Purchase Loans

The geographic distribution of home purchase loans in 2011 and 2012-2013 is excellent when compared to peer and the demographic comparative. The following tables illustrate the geographic distribution of home purchase loans:

<b>2011 Geographic Distribution of Home Purchase Loans in Fargo-Moorhead MMSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	20.00%	5.29%	8.26%
Middle	52.00%	59.09%	72.89%
Upper	28.00%	35.61%	18.86%

Source: 2011 HMDA Data; 2011 Aggregate Lending Data; 2000 Demographic Data

<b>2012-2013 Geographic Distribution of Home Purchase Loans in Fargo-Moorhead MMSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	1.96%	0.00%	0.69%
Moderate	17.65%	5.29%	9.77%
Middle	45.10%	59.09%	62.54%
Upper	35.29%	35.61%	26.99%

Source: 2012 and YTD June 30, 2013 HMDA Data; 2011 Aggregate Lending Data; 2010 Demographic Data

**Home Refinance Loans**

The geographic distribution of home refinance loans in 2011 is excellent when compared to peer and the demographic comparative. The following table illustrates the geographic distribution of home refinance loans in 2011:

<b>2011 Geographic Distribution of Home Refinance Loans in Fargo-Moorhead MMSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	9.43%	4.59%	8.26%
Middle	39.62%	64.70%	72.89%
Upper	50.94%	30.71%	18.86%

*Source: 2011 HMDA Data; 2011 Aggregate Lending Data; 2000 Demographic Data*

The geographic distribution of home refinance loans in 2012-2013 is reasonable when compared to peer and the demographic comparative. Lending in low-income tracts is excellent as the bank significantly exceeds peer and the demographic comparator. Lending in moderate-income tracts is reasonable as performance is near peer and the demographic comparator. The following table illustrates the geographic distribution of home refinance loans in 2012-2013:

<b>2012-2013 Geographic Distribution of Home Refinance Loans in Fargo-Moorhead MMSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	3.30%	0.00%	0.69%
Moderate	5.49%	4.59%	9.77%
Middle	54.95%	64.70%	62.54%
Upper	36.26%	30.71%	26.99%

*Source: 2012 and YTD June 30, 2013 HMDA Data; 2011 Aggregate Lending Data; 2010 Demographic Data*

**Responses to Complaints**

The bank has not received any complaints regarding its CRA performance during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

The bank’s performance under the community development test in the Fargo-Moorhead MMSA is rated Satisfactory.

## **Number and Amount of Community Development Loans**

During the review period, the bank originated four qualified community development loans totaling approximately \$2.6 million. These projects included:

- An affordable housing tax credit project in Fargo that requires compliance with renting to low- and moderate-income tenants.
- A group home for physically and mentally disabled in Moorhead.
- A single family home leased to Lutheran Social Services for housing the disadvantaged.
- A General Obligation bond to finance a maintenance building for the Fargo Park district which will increase operational efficiency and support capacity for future park development. The park department's mission is to provide quality recreational and leisure services at an affordable price to improve the quality of life for all residents of Fargo.

## **Number and Amount of Qualified Investments**

During the review period, the bank made 19 qualified donations to area organizations providing community development services. These donations totaled approximately \$10,000 and went to support organizations, including the Greater Fargo-Moorhead Economic Development Commission, Big Brothers Big Sisters, United Way, the Salvation Army, and the Great Plains Food Bank.

## **Extent to Which the Bank Provides Community Development Services**

Eight bank employees served with six different organizations providing community development services in the AA, including community services for low- and moderate-income individuals and economic development. Below are several examples of these activities.

- One employee serves as the Board Chairman of Sharehouse Inc. an organization providing addiction treatment service with housing assistance based on income for men, women, and children.
- One employee serves on the Board for the Fargo Dollars for Scholars organization which awards scholarships based on financial needs and economic standings.
- One employee served as the VP of Finance Committee for the Fargo-Moorhead Lions Club which coordinates eye exams and glasses purchases for low- and moderate-income individuals.

## **Responsiveness to Community Development Needs**

American Federal is responsive to community development needs through community development loans, investments, and services. Further, the bank offers a number of loan products that exhibit community development characteristics but cannot be considered as such given that they are already considered in the lending test. These include, FHA, VA, Rural Development, MN 1<sup>st</sup> Time Homebuyer loans, and MN Fix-Up

Fund loans. These loans are primarily geared toward low- and moderate-income borrowers.

We also noted that the bank operates a branch in downtown Fargo in what was designated as a moderate-income census tract up until the 2010 census data changes. During that timeframe, the branch helped increase the availability of bank services to low- and moderate-income individuals.

## **Multistate Metropolitan Area Rating**

### **Grand Forks, ND-MN MMSA**

**CRA Rating for the Grand Forks MMSA<sup>3</sup>: Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting the institution's multistate metropolitan rating include:

- Reasonable distribution of loans to borrowers of different incomes.
- Excellent geographic dispersion of loans throughout the AA.
- Reasonable responsiveness to community development needs through community development loans, qualified investments, and services.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE GRAND FORKS MMSA**

The Grand Forks AA consists of the entire Grand Forks, ND-MN MSA, a multi-state MSA located in northwestern Minnesota and eastern North Dakota. The Grand Forks, MMSA includes all of Polk County in Minnesota and Grand Forks County in North Dakota. The bank has five branches within the AA, including one in Grand Forks, one in Northwood in North Dakota, and three in the Minnesota communities of Crookston, Fosston, and East Grand Forks. The AA meets the regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The following tables show 2000 and 2010 U.S. Census demographic and economic information for the Grand Forks MMSA. It should be noted that the MSA census tract composition changed slightly between 2000 and 2010. Specifically, the AA went from 27 to 28 tracts total, and the number of moderate-income tracts increased from two to five while the number of upper-income tracts decreased from five to three.

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<sup>3</sup>This rating reflects performance within the multistate metropolitan area. The statewide evaluations do not reflect performance in the parts of those states contained within the multistate metropolitan area.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE GRAND FORKS, ND-MN MMSA (2000)</b>	
<b>Population</b>	
Number of Families	23,881
Number of Households	37,504
% of Low-Income Families	17.59
% of Moderate-Income Families	19.53
% of Middle-Income Families	25.02
% of Upper-Income Families	37.85
<b>Geographies</b>	
Number of Census Tracts	27
% Low-Income Census Tracts	3.70
% Moderate-Income Census Tracts	7.41
% Middle-Income Census Tracts	70.37
% Upper-Income Census Tracts	18.52
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$46,352
2011 HUD-Adjusted MFI	\$63,800
<b>Economic Indicators</b>	
2011 Unemployment Rate	3.17%
2000 Median Housing Value	\$80,357
% of Households Below Poverty Level	13%

Source: 2000 U.S. Census data with updated information when available

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE GRAND FORKS, ND-MN MSA AA (2010)</b>	
<b>Population</b>	
Number of Families	22,957
Number of Households	39,023
% of Low-Income Families	19.55
% of Moderate-Income Families	18.31
% of Middle-Income Families	24.20
% of Upper-Income Families	37.94
<b>Geographies</b>	
Number of Census Tracts	28
% Low-Income Census Tracts	3.57
% Moderate-Income Census Tracts	17.86
% Middle-Income Census Tracts	67.86
% Upper-Income Census Tracts	10.71
<b>Median Family Income (MFI)</b>	
2010 MFI for AA	\$64,258
2013 HUD-Adjusted MFI	\$67,700
<b>Economic Indicators</b>	
2013 Unemployment Rate	3.40%
2010 Median Housing Value	\$127,851
% of Households Below Poverty Level	16%

Source: 2010 U.S. Census data with updated information when available

Economic activity in the AA is centered on the services, agriculture, and retail trade industries. The major employers within the AA are the Grand Forks U.S. Air Force Base, University of North Dakota (UND), Altru Health System, J.R. Simplot Company, and North Dakota Mill and Elevator.

Competition from other financial institutions in the AA is strong. Per the June 30, 2012 FDIC Deposit Market Share Report, the top four financial institutions based on market share (Bremer Bank, Alerus Financial, US Bank, Frandsen Bank & Trust) accounted for 61.06 percent of the market share within the AA. American Federal ranked eighth in deposit market share among 21 financial institutions with 5.06 percent of the deposit market share.

We reviewed a recent community contact conducted as part of a CRA evaluation for another local financial institution. Community contact information was used to gain an understanding of the local economic conditions as well as identify the credit needs and perceived performance of financial institutions within the AA. Per the contact, the state of North Dakota, specifically Grand Forks area, has seen significant economic improvements over the last several years. The strong economy is boosted primarily by the oil production in the Bakken Formation in Western North Dakota.

The contact noted that the two primary credit needs of the community are affordable housing and venture capital for new businesses without established cash flows. The lack of affordable housing was attributed to a general shortage of housing which has led to affordability issues. The contact noted that lenders appear willing to lend on housing construction projects, including to low- and moderate-income borrowers; however, local land developers and builders have been unwilling to take this risk. The contact also reported favorable perceptions regarding the services and availability of credit offered by local financial institutions.

## **SCOPE OF EVALUATION IN GRAND FORKS MMSA**

American Federal has only one AA in the Grand Forks MMSA rated area which consists of the entire MSA. As such, we conducted a full-scope review of the Grand Forks MMSA AA and there were no AAs receiving limited-scope reviews. Ratings are based entirely on the results of the bank's performance in the Grand Forks MMSA AA.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE GRAND FORKS MMSA**

American Federal's CRA performance in the Grand Forks MMSA is Satisfactory. The bank's performance is satisfactory under both the lending test and the community development test.

## LENDING TEST

The bank's performance under the lending test in Grand Forks MMSA is Satisfactory.

### Borrower Distribution of Agricultural Loans

The distribution of agricultural loans reflects poor penetration among farms of different sizes in 2011. The number and dollar volume of loans to farms with revenues less than or equal to a million dollars does not meet the performance of aggregate lenders and is significantly below the area demographics. The following table illustrates American Federal's lending to farms of different sizes in 2011:

2011 Borrower Distribution of Loans to Farms in Grand Forks MMSA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.38%	1.75%	0.87%	100%
Aggregate Lending data	71.45%	28.55%	0.00%	100%
% of Bank Loans in AA by #	55.00%	40.00%	5.00%	100%
% of Bank Loans in AA by \$	41.70%	55.03%	3.27%	100%

Source: Loan Sample; 2011 Peer Data; 2011 Business & Geodemographic Data

The distribution of agricultural loans reflects poor penetration among farms of different sizes in 2012-2013. The number and amount of bank loans to farms with revenues less than or equal to a million dollars does not meet the performance of aggregate lenders and is significantly below the area demographics. The following table illustrates American Federal's lending to farms of different sizes in 2012-2013:

2012-13 Borrower Distribution of Loans to Farms in Grand Forks MMSA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.36%	1.98%	0.66%	100%
Aggregate Lending data	71.45%	28.55%	0.00%	100%
% of Bank Loans in AA by #	55.00%	40.00%	5.00%	100%
% of Bank Loans in AA by \$	31.90%	58.09%	10.01%	100%

Source: Loan Sample; 2011 Peer Data; 2013 Business & Geodemographic data

### Borrower Distribution of Home Mortgage Loans

The distribution of home loans reflects reasonable penetration among individuals of different income levels.

#### Home Purchase Loans

The distribution of home purchase loans reflects excellent penetration among borrowers of different income levels in 2011. Lending to moderate-income borrowers was excellent when compared to aggregate lenders and the demographic comparative. Lending to low-income borrowers was reasonable as the bank's performance was near

peer and the demographic comparative. The following table shows the distribution of home purchase loans among borrowers of different income levels in 2011:

<b>2011 Borrower Distribution of Home Purchase Loans in Grand Forks MMSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	10.00%	9.83%	17.59%
Moderate	35.00%	25.00%	19.53%
Middle	25.00%	27.29%	25.02%
Upper	30.00%	37.88%	37.85%

*Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Demographic Data*

The distribution of home purchase loans reflects reasonable penetration among borrowers of different income levels in 2012-13. While the distribution of home purchase loans to low-income borrowers is lower than peer and significantly below the demographic comparative, we considered the level of families living below the poverty rate in the AA as these borrower would likely not qualify for home loans. Families living below the poverty level total 8 percent. Lending to moderate-income borrowers is below peer but near the demographic comparative. The following table shows the distribution of home purchase loans among borrowers of different income levels in 2012-2013:

<b>2012-2013 Borrower Distribution of Home Purchase Loans in Grand Forks MMSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	7.14%	9.83%	19.55%
Moderate	16.67%	25.00%	18.31%
Middle	26.19%	27.29%	24.20%
Upper	50.00%	37.88%	37.94%

*Source: 2012 & YTD June 30, 2013 HMDA Data; 2011 Peer Lending Data; 2010 Demographic Data*

**Home Refinance Loans**

The distribution of home refinance loans reflects reasonable penetration among borrowers of different income levels in 2011. Lending to moderate-income borrowers is excellent when compared to peer and demographic comparative. Lending to low-income borrowers is below peer and significantly lower than the demographic comparative. The following table illustrates the distribution of home refinance loans among borrowers of different income levels in 2011:

<b>2011 Borrower Distribution of Home Refinance Loans in Grand Forks MMSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	2.33%	5.74%	17.59%
Moderate	25.58%	16.56%	19.53%
Middle	18.60%	26.71%	25.02%
Upper	53.49%	50.99%	37.85%

Source: 2011 HMDA Data; 2011 Aggregate Lending Data; 2000 Demographic Data

The distribution of home refinance loans reflects reasonable penetration among borrowers of different income levels in 2012-2013. Lending to moderate-income borrowers is excellent when compared to peer and demographic comparative. Lending to low-income borrowers is below peer and significantly lower than the demographic comparative. The following table illustrates the distribution of home refinance loans among borrowers of different income levels in 2012-2013:

<b>2012-2013 Borrower Distribution of Home Refinance Loans in Grand Forks MMSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	2.20%	5.74%	19.55%
Moderate	21.98%	16.56%	18.31%
Middle	20.88%	26.71%	24.20%
Upper	54.95%	50.99%	37.94%

Source: 2012 and YTD June 30, 2013 HMDA Data; 2011 Aggregate Lending Data; 2010 Demographic Data

### Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the AA. Our analysis focused on lending in moderate-income census tracts given the low number of low-income census tracts and the low level of owner-occupied housing within the low-income census tracts.

### Geographic Distribution of Agricultural Loans

The geographic distribution of agricultural loans reflects reasonable dispersion throughout the AA. In 2011, the bank did not have any lending activity in the moderate-income geographies; however, this is comparable to peer and AA demographics. The following table shows the geographic distribution of farm loans in 2011:

<b>2011 Geographic Distribution of Loans to Farms in Grand Forks MMSA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Farms	0.10%	0.58%	79.51%	19.81%
Aggregate Lending Data	0.00%	0.96%	86.33%	12.70%
% of Number of Bank Loans	0.00%	0.00%	90.00%	10.00%

Source: Loan Sample; 2011 Peer Data; 2011 Business Geodemographic Data

In 2012-2013, the bank’s performance in the moderate-income tracts was lower than the demographic comparative but significantly exceeded peer. The following table shows the geographic distribution of farm loans in 2012-2013:

<b>2012-13 Geographic Distribution of Loans to Farms in Grand Forks MMSA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Farms	0.17%	13.05%	81.26%	5.53%
Aggregate Lending Data	0.00%	0.96%	86.33%	12.70%
% of Number of Bank Loans	0.00%	5.00%	90.00%	5.00%

Source: Loan Sample; 2011 Peer Data; 2013 Business Geodemographic Data

### **Geographic Distribution of Home Mortgage Loans**

The geographic distribution of home mortgage loans reflects excellent penetration throughout the AA.

#### Home Purchase Loans

The geographic distribution of home purchase loans reflects reasonable dispersion throughout census tracts of different income levels in 2011. While the bank did not lend in low- or moderate-income census tracts, we noted that aggregate lending performance and the percent of AA owner-occupied housing are very minimal making it difficult to lend within those geographies. The following table shows the geographic distribution of home purchase loans in 2011:

<b>2011 Geographic Distribution of Home Purchase Loans in Grand Forks MMSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.31%	0.09%
Moderate	0.00%	1.09%	1.58%
Middle	75.00%	67.05%	75.52%
Upper	25.00%	31.55%	22.81%

Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Demographic Data

The geographic distribution of home purchase loans reflects reasonable dispersion throughout census tracts of different income levels in 2012-2013. American Federal exceeds the standard for satisfactory performance when compared to the aggregate lending performance in the moderate-income areas. Although the bank did not have any lending activity in the low-income tract, we noted the very low percentage of aggregate lending activity in this area as well as the very small percentage of owner-occupied housing in this area makes it difficult to lend within these geographies. The following table shows the geographic distribution of home purchase loans in 2012-2013:

<b>2012-2013 Geographic Distribution of Home Purchase Loans in Grand Forks MMSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.31%	0.49%
Moderate	7.14%	1.09%	17.23%
Middle	73.81%	67.05%	67.34%
Upper	19.05%	31.55%	14.94%

Source: 2012 and YTD June 30, 2013 HMDA Data; 2011 Peer Lending Data; 2010 Demographic Data

Home Refinance Loans

The geographic distribution of home refinance loans reflects excellent dispersion throughout census tracts of different income levels in 2011. Lending in moderate-income census tracts significantly exceeds peer and the demographic comparative. While the bank did not have any lending activity in the low-income tract, we again noted the very low percentage of aggregate lending activity in this area as well as the very small percentage of owner-occupied housing in the area. The following table shows the geographic distribution of home refinance loans in 2011:

<b>2011 Geographic Distribution of Home Refinance Loans in Grand Forks MMSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.19%	0.09%
Moderate	4.65%	1.32%	1.58%
Middle	81.40%	61.13%	75.52%
Upper	13.95%	37.36%	22.81%

Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Demographic Data

The geographic distribution of home refinance loans reflects excellent dispersion throughout census tracts of different income levels in 2012-2013. American Federal exceeds the standard for satisfactory performance when compared to the aggregate lending performance in moderate-income census tracts. Although the bank did not have any lending activity in the low-income tract, we again noted the very low percentage of aggregate lending activity in this area as well as the very small percentage of owner-occupied housing in the area.

<b>2012-2013 Geographic Distribution of Home Refinance Loans in Grand Forks MMSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.19%	0.49%
Moderate	11.34%	1.32%	17.23%
Middle	62.89%	61.13%	67.34%
Upper	25.77%	37.36%	25.77%

Source: 2012 and YTD June 30, 2013 HMDA Data; 2011 Peer Lending Data; 2010 Demographic Data

## **Responses to Complaints**

The bank has not received any complaints regarding its CRA performance during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the community development test in the Grand Forks MMSA is rated Satisfactory.

### **Number and Amount of Community Development Loans**

During the review period, the bank made seven qualified community development loans totaling nearly \$1.1 million. These projects included:

- Four different group homes for mentally and physically disabled individuals in East Grand Forks and Crookston.
- Two FSA guaranteed loans that supported economic development by financing small farms in moderate-income areas, which in turn helped create/retain jobs in the area. Further, the FSA loans are typically to either beginning farmers or those who would not qualify for traditional bank financing.
- One SBA guaranteed loan that financed the purchase of trucks for a trucking company which supported economic development by creating jobs for low- and moderate-income individuals.

### **Number and Amount of Qualified Investments**

During the review period, American Federal made seventeen qualified donations to various organizations supporting economic development and community services for low- and moderate-income individuals in the area. These donations totaled approximately \$13,000 and supported organizations, including the United Way, the Northwest MN Foundation, the Crookston Area Community Fund, and Dollars for Scholars.

### **Extent to Which the Bank Provides Community Development Services**

During the review period, a total of eight bank employees served with twelve different community development organizations in the area. Below are examples of this activity.

- One employee serves as the President of the Crookston Chamber of Commerce which promotes small business and economic development in the area.
- Another employee serves as the Vice President of Fundraising/Grant Committee for the Crookston Area Community Fund which provides funding for various Crookston area projects, many of which qualify as community development. This same employee also serves as a Board member for the Developmental Activity Center which provides vocational and sensory therapy for disabled people in the area.

- One employee serves as a Family Selection Committee Member for the local Habitat for Humanity which includes reviewing applications and providing underwriting guidance to the committee on the candidates.

### **Responsiveness to Community Development Needs**

American Federal demonstrated adequate responsiveness to community development needs in its AA through community development loans and qualified investments and services considering the bank's capacity and the need and availability for community development in the bank's AAs.

We also noted that during the review period, two of the bank's branches were located in moderate-income census tracts. These branches helped increased access and availability of bank services to the low- and moderate-income population.

## **State Rating**

### **State of Minnesota**

**CRA Rating for Minnesota:<sup>4</sup> Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting the institution's state rating include:

- Reasonable borrower distribution of loans to farms of different sizes.
- Reasonable borrower distribution of loans to borrowers of different incomes.
- Excellent geographic dispersion of loans throughout the AA.
- Reasonable responsiveness to community development needs through community development loans, qualified investments, and services.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN MINNESOTA**

American Federal has operations in five non-MSA counties in northwestern Minnesota, including Wilkin, Norman, Marshall, Kittson, and Otter Tail. The bank has four branches in this rated area in the towns of Ada, Fergus Falls, Hallock, and Warren. The AA is predominately rural; however, the AA does border the MMSA AAs of Grand Forks and Fargo. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

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<sup>4</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

The following tables show 2000 U.S. Census and 2010 U.S. Census demographic and economic information for the Minnesota Non-MSA AA. The AA census tract composition changed slightly between the 2000 and 2010 U.S. censuses. Specifically, the number of moderate-income tracts increased from one to two and the number of upper-income tracts increased from zero to one. There are no low-income tracts in the AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE MINNESOTA NON-MSA AA (2000)</b>	
<b>Population</b>	
Number of Families	24,074
Number of Households	34,697
% of Low-Income Families	18.96
% of Moderate-Income Families	21.57
% of Middle-Income Families	26.79
% of Upper-Income Families	32.68
<b>Geographies</b>	
Number of Census Tracts	27
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	3.70
% Middle-Income Census Tracts	96.30
% Upper-Income Census Tracts	0.00
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$42,838
2011 HUD-Adjusted MFI	\$59,200
<b>Economic Indicators</b>	
2011 Unemployment Rate	3.45%
2000 Median Housing Value	\$77,267
% of Households Below Poverty Level	11%

Source: 2000 U.S. Census data with updated information when available

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE MINNESOTA NON-MSA AA (2010)</b>	
<b>Population</b>	
Number of Families	24,705
Number of Households	36,454
% of Low-Income Families	19.91
% of Moderate-Income Families	20.11
% of Middle-Income Families	23.54
% of Upper-Income Families	36.43
<b>Geographies</b>	
Number of Census Tracts	28
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	7.14
% Middle-Income Census Tracts	89.29
% Upper-Income Census Tracts	3.57
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$55,324
2013 HUD-Adjusted MFI	\$61,700
<b>Economic Indicators</b>	
2013 Unemployment Rate	3.42%
2010 Median Housing Value	\$144,399
% of Households Below Poverty Level	12%

*Source: 2010 U.S. Census data with updated information when available*

Economic activity in the AA is centered in the services and agriculture industries. Based on the 2013 Business Geodemographic Data, the services industry comprises 36 percent of activity, followed by agriculture at 19 percent of activity. The largest employer in the area is Lake Region Healthcare.

Competition from other financial institutions in the AA is strong. The top four financial institutions in terms of market share (United Community Bank, Wells Fargo, Bank of the West, and Security State Bank of Fergus Falls) represent only 34 percent of total deposits and the market leader has only a ten percent share of the market. As of June 30, 2012, American Federal ranked ninth in deposit market share among 33 financial institutions. The bank had just over \$288 million in deposits, representing a deposit market share of 4.27 percent.

## **SCOPE OF EVALUATION IN MINNESOTA**

American Federal has only one AA in the MN Non-MSA rated area. As such, we conducted a full-scope review of the AA, and the ratings are based entirely on the results of this area.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MINNESOTA

American Federal's CRA performance in the State of Minnesota is Satisfactory. The bank's performance under both the lending test and the community development test is satisfactory.

### LENDING TEST

The bank's performance under the lending test in Minnesota is rated Satisfactory.

#### Borrower Distribution of Agricultural Loans

The distribution of agricultural loans reflects poor penetration among farms of different sizes in 2011. The number of bank loans to farms with revenues less than or equal to a million dollars was lower than peer and significantly lower than the demographic comparative. The following table shows American Federal's lending to farms of different sizes in 2011:

2011 Borrower Distribution of Loans to Farms in MN Non-MSA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.45%	0.86%	0.69%	100%
Aggregate Lending data	74.45%	25.55%	0.00%	100%
% of Bank Loans in AA by #	65.00%	35.00%	0.00%	100%
% of Bank Loans in AA by \$	34.80%	65.20%	0.00%	100%

Source: Loan Sample; 2011 Peer Lending Data; 2011 Business Geodemographic Data

The distribution of agricultural loans reflects reasonable penetration among farms of different sizes in 2012-2013. The number of loans to farms with revenues less than or equal to a million dollars exceeds peer performance and is near the demographic comparative. The following table shows American Federal's lending to farms of different sizes in 2012-2013:

2012-13 Borrower Distribution of Loans to Farms in MN Non-MSA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.78%	0.78%	0.44%	100%
Aggregate Lending data	74.45%	25.55%	0.00%	100%
% of Bank Loans in AA by #	80.00%	20.00%	0.00%	100%
% of Bank Loans in AA by \$	42.66%	57.34%	0.00%	100%

Source: Loan Sample; 2011 Peer Lending Data; 2013 Business Geodemographic Data

#### Borrower Distribution of Home Mortgage Loans

The distribution of home loans reflects reasonable penetration among individuals of different income levels.

Home Purchase Loans

The distribution of home purchase loans reflects reasonable penetration among borrowers of different income levels in 2011. The bank met the standard for satisfactory performance in lending to moderate-income borrowers when compared to aggregate lenders and the demographic comparative. While the distribution of home purchase loans to low-income borrowers is below peer and significantly lower than the demographic comparative, we considered the level of families living below the poverty rate in the AA as these borrowers would likely not qualify for home loans. Families living below the poverty rate total 11 percent. The following table shows the distribution of home purchase loans among borrowers of different income levels in 2011:

<b>2011 Borrower Distribution of Home Purchase Loans in Minnesota Non-MSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	8.82%	14.05%	18.96%
Moderate	23.53%	23.82%	21.57%
Middle	14.71%	23.36%	26.79%
Upper	52.94%	38.78%	32.68%

*Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Demographic Data*

The distribution of home purchase loans reflects reasonable penetration among borrowers of different income levels in 2012-2013. The bank again met the standard for satisfactory performance in lending to moderate-income borrowers when compared to aggregate lenders and the demographic comparative. In lending to low-income borrowers, the bank’s performance did not meet the standard for satisfactory performance in comparison to peer and the area demographics. The following table shows the distribution of home purchase loans among borrowers of different income levels in 2012-2013:

<b>2012-2013 Borrower Distribution of Home Purchase Loans in Minnesota Non-MSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	4.69%	14.05%	19.91%
Moderate	21.88%	23.82%	20.11%
Middle	21.88%	23.36%	23.54%
Upper	51.56%	38.78%	36.43%

*Source: 2012 & YTD June 30, 2013 HMDA Data; 2011 Peer Lending Data; 2010 Demographic Data*

Home Refinance Loans

The distribution of home refinance loans reflects reasonable penetration among borrowers of different income levels in 2011. Lending to low- and moderate-income borrowers is near peer. While lending to low-income families is significantly below the demographic comparative, we considered the level of families living below the poverty

rate of 11 percent as these borrowers would likely not qualify for credit. The following table shows the distribution of home refinance loans to borrowers of different income levels in 2011:

<b>2011 Borrower Distribution of Home Refinance Loans in Minnesota Non-MSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	5.48%	7.26%	18.96%
Moderate	15.07%	16.71%	21.57%
Middle	17.81%	23.98%	26.79%
Upper	61.64%	52.05%	32.68%

*Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Demographic Data*

The distribution of home refinance loans reflects reasonable penetration among borrowers of different income levels in 2012-2013. The bank met the standard for satisfactory performance in lending to moderate-income borrowers when compared to aggregate lenders and the demographic comparative. In lending to low-income borrowers, the bank’s performance did not meet the standard for satisfactory performance when compared to peer. The following table shows the distribution of home refinance loans in 2012-2013:

<b>2012-2013 Borrower Distribution of Home Refinance Loans in Minnesota Non-MSA</b>			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	3.97%	7.26%	19.91%
Moderate	13.49%	16.71%	20.11%
Middle	15.87%	23.98%	23.54%
Upper	66.67%	52.05%	36.43%

*Source: 2012 and YTD June 30, 2013 HMDA Data; 2011 Peer Lending Data; 2010 Demographic Data*

**Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout the AA. There are no low-income tracts within the AA so our analysis focused on the bank’s performance in the moderate-income tracts.

**Geographic Distribution of Agricultural Loans**

The geographic distribution of agricultural loans reflects excellent penetration throughout the AA when compared to both aggregate lenders and area demographics. The bank’s performance in 2011 significantly exceeded the performance of the aggregate lenders and the demographic comparator. In 2012-2013, the bank’s performance again exceeded both comparables. The following two tables show the distribution of agricultural loans among farms of different sizes:

2011 Geographic Distribution of Loans to Farms in MN Non-MSA				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Farms	0.00%	4.08%	95.92%	0.00%
Aggregate Lending Data	0.00%	1.79%	98.21%	0.00%
% of Number of Bank Loans	0.00%	20.00%	80.00%	0.00%

Source: Loan Sample; 2011 Peer Lending Data; 2011 Business Geodemographic Data

2012-13 Geographic Distribution of Loans to Farms in MN Non-MSA				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Farms	0.00%	3.33%	92.51%	4.16%
Aggregate Lending Data	0.00%	1.79%	98.21%	0.00%
% of Number of Bank Loans	0.00%	5.00%	60.00%	35.00%

Source: Loan Sample; 2011 Peer Lending Data; 2011 Business Geodemographic Data

### Geographic Distribution of Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent penetration throughout the AA.

#### Home Purchase Loans

The geographic distribution of home purchase loans reflects reasonable dispersion throughout census tracts of different income levels in 2011. While the bank did not make any loans in the moderate-income tract, we noted the performance of aggregate lenders was also very low as was the percentage of owner-occupied housing in the moderate-income tracts. The following table shows the geographic distribution of home purchase loans in 2011:

2011 Geographic Distribution of Home Purchase Loans in Minnesota Non-MSA			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	0.00%	1.70%	3.35%
Middle	100.00%	98.30%	96.65%
Upper	0.00%	0.00%	0.00%

Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Demographic Data

The geographic distribution of home purchase loans was excellent in 2012-2013. Lending in moderate-income census tracts significantly exceeded peer and was near the demographic comparative. The following table shows the geographic distribution of home purchase loans in 2012-2013:

<b>2012-2013 Geographic Distribution of Home Purchase Loans in Minnesota Non-MSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	6.25%	1.70%	7.97%
Middle	78.13%	98.30%	89.25%
Upper	15.63%	0.00%	2.78%

Source: 2012 and YTD June 30, 2013 HMDA Data; 2011 Peer Lending Data; 2010 Demographic Data

**Home Refinance Loans**

The geographic distribution of home refinance loans was reasonable in 2011. Lending in moderate-income census tracts exceeded peer and was near the demographic comparative. The following table shows the geographic distribution of home refinance loans in 2011:

<b>2011 Geographic Distribution of Home Refinance Loans in Minnesota Non-MSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	2.63%	0.89%	3.35%
Middle	97.37%	99.11%	96.65%
Upper	0.00%	0.00%	0.00%

Source: 2011 HMDA Data; 2011 Peer Lending Data; 2000 Demographic Data

The geographic distribution of home refinance loans was excellent in 2012-2013. Lending in moderate-income census tracts significantly exceeded peer and was near the demographic comparative. The following table shows the geographic distribution of home refinance loans in 2012-2013:

<b>2012-2013 Geographic Distribution of Home Refinance Loans in Minnesota Non-MSA</b>			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00%	0.00%	0.00%
Moderate	4.55%	0.89%	7.97%
Middle	86.36%	99.11%	89.25%
Upper	9.09%	0.00%	2.78%

Source: 2012 and YTD June 30, 2013 HMDA Data; 2011 Peer Lending Data; 2010 Demographic Data

**Responses to Complaints**

The bank has not received any complaints regarding its CRA performance during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the community development test in Minnesota is rated Satisfactory.

### **Number and Amount of Community Development Loans**

During the review period, the bank made 64 qualified loans totaling \$12.2 million. The loans supported community development through affordable housing projects, economic development, and area revitalization/stabilization efforts. These loans included:

- 30 FSA guaranteed loans totaling \$3.9 million that were made in moderate-income tracts and distressed and underserved areas that helped to create and retain jobs in these areas for farmers who are either beginning farmers or who cannot qualify for traditional bank financing.
- Four SBA guaranteed loans totaling \$2.7 million that supported economic development by creating/retaining/improving jobs for low- and moderate-income individuals or in moderate-income areas or in areas designated as distressed and/or underserved.
- Seven loans totaling \$5.7 million that supported affordable housing projects, including several group homes for the disabled, an assisted living facility in an underserved/distressed area, and a nursing home primarily serving low- and moderate-income individuals

### **Number and Amount of Qualified Investments**

During the review period, the bank made 26 qualified donations to area organizations supporting community services for low- and moderate-income individuals as well as economic development and revitalization/stabilization efforts in the area. These donations totaled nearly \$3,200 and funded organizations, including the Fergus Falls Area YMCA, Fergus Falls Community food shelf, and the Warren One Fund.

### **Extent to Which the Bank Provides Community Development Services**

During the review period, five bank employees served with six different area organizations that either provide needed community services to low- and moderate-income individuals or that promote economic development. Examples of these activities include:

- One employee serves as a board member of the Warren Chamber of Commerce which promotes small business and economic development in Warren, an underserved area.
- One employee serves as the treasurer for the Warren One Fund, an organization that provides funding to various charities in the area.
- One employee serves as Board President and Treasurer of a local YMCA where they are involved in fundraising and advising on budget issues for the organization which uses funding to target low- and moderate-income youth services.

## **Responsiveness to Community Development Needs**

American Federal demonstrated adequate responsiveness to community development needs in its AA through community development loans and qualified investments and services.

We also noted that during the review period, the bank operated three branches in areas considered underserved due to their rural and remote nature. Operating branches in these communities can be seen as helping to stabilize the underserved areas by meeting essential community needs.

## **State Rating**

### **State of North Dakota**

**CRA Rating for North Dakota:<sup>5</sup> Needs to Improve.**

**The Lending Test is rated: Needs to Improve.**

**The Community Development Test is rated: Needs to Improve.**

The major factors supporting the institution's state rating include:

- Poor distribution of loans to farms of different sizes.
- Poor responsiveness to community development needs through community development loans, qualified investments, and services.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN NORTH DAKOTA**

American Federal has one branch location in Wahpeton, North Dakota which is located approximately 60 miles south of Fargo in Richland County, a non-MSA county. The branch is located very close to the Minnesota border and thus serves the MN Non-MSA county of Wilkin. However, we included Wilkin county in the MN Non-MSA AA given that an AA may not extend significantly beyond a state boundary.

The following tables demonstrate the demographics for the area based on 2000 and 2010 census data. It should be noted that the census tract composition changed slightly between the 2000 and 2010 censuses. Specifically, the number of census tracts decreased from 8 to 6, and the number of moderate-income tracts decreased from two to zero.

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<sup>5</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE ND Non-MSA AA (2000)</b>	
Population	17,998
Number of Families	4,397
Number of Households	6,848
% of Low-Income Families	12.67
% of Moderate-Income Families	14.10
% of Middle-Income Families	27.06
% of Upper-Income Families	46.17
<b>Geographies</b>	
Number of Census Tracts	8
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	25
% Middle-Income Census Tracts	37.5
% Upper-Income Census Tracts	37.5
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$39,651
2011 HUD-Adjusted MFI	\$63,000
<b>Economic Indicators</b>	
2011 Unemployment Rate	4.1%
2000 Median Housing Value	\$65,965
% of Households Below Poverty Level	13%

Source: 2000 U.S. Census data with updated information when available

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE ND Non-MSA AA (2010)</b>	
Population	16,321
Number of Families	4,153
Number of Households	6,517
% of Low-Income Families	14.81
% of Moderate-Income Families	18.35
% of Middle-Income Families	21.43
% of Upper-Income Families	45.41
<b>Geographies</b>	
Number of Census Tracts	6
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	66.67
% Upper-Income Census Tracts	33.33
<b>Median Family Income (MFI)</b>	
2010 MFI for AA	\$58,557
2013 HUD-Adjusted MFI	\$64,800
<b>Economic Indicators</b>	
2012 Unemployment Rate	4%
2010 Median Housing Value	\$97,476
% of Households Below Poverty Level	12%

Source: 2010 U.S. Census data with updated information when available

This AA represents the smallest dollar volume of deposits and loan origination activity. As such, this AA received the least weighting in determining the overall bank rating. There are numerous financial institutions competing for products and services in the area, both local and non-local. According to the June 30, 2012 FDIC Deposit Market Share Report, the top four (Bank of the West, Wells Fargo NA, Lincoln State Bank, and Gate City Bank) comprise 70.48 percent of the deposit market share within the AA. The bank is ranked ninth out of the nine institutions, comprising 3.76 percent of the deposit market share.

Unemployment is low and stable within the AA, providing for a strong and thriving economy. Major industries in the area include education, agriculture, manufacturing, and services.

During the exam, we contacted a local community member to gain a better understanding of the community and its credit needs. The contact indicated that the local economy was stable and that retail area businesses are thriving. They indicated that agriculture is the dominant industry in the area and manufacturing also has a large presence. Due to an aging population, our contact indicated that senior housing is a need, specifically for the middle- and lower-income populations. The area struggles with affordable housing as buildable lots are scarce and projects often struggle to find financing. The contact indicated that the Bank of North Dakota works with local lenders by leveraging their assets to meet local community needs.

## **SCOPE OF EVALUATION IN NORTH DAKOTA**

American Federal has only one AA in the ND Non-MSA rated area. As such, we conducted a full-scope review of the AA and the ratings are based entirely on results of this area.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NORTH DAKOTA**

American Federal's CRA performance in the State of North Dakota is Needs to Improve. The bank's performance under both the lending test and community development test is Needs to Improve.

### **LENDING TEST**

The bank's performance under the lending test in North Dakota is rated Needs to Improve.

#### **Lending to Farms of Different Sizes**

The distribution of agricultural loans reflects poor penetration among farms of different sizes in 2011 and in 2012-2013 when compared to the aggregate lending data and area demographics. The number and amount of bank loans to farms with revenues less than

or equal to a million dollars is below peer and significantly lower than the demographic comparative. The following tables show the distribution of agricultural loans to farms of different sizes:

<b>2011 Borrower Distribution of Loans to Farms in ND Non-MSA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.23%	0.51%	0.26%	100%
Aggregate Lending data	70.21%	29.79%	0.00%	100%
% of Bank Loans in AA by #	55.00%	45.00%	0.00%	100%
% of Bank Loans in AA by \$	45.05%	54.95%	0.00%	100%

Source: Loan Sample; 2011 Peer Lending Data; 2011 Business Geodemographic Data

<b>2012-13 Borrower Distribution of Loans to Farms in ND Non-MSA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.18%	0.41%	0.41%	100%
Aggregate Lending data	70.21%	29.79%	0.00%	100%
% of Bank Loans in AA by #	55.00%	45.00%	0.00%	100%
% of Bank Loans in AA by \$	40.79%	59.21%	0.00%	100%

Source: Loan Sample; 2011 Peer Lending Data; 2013 Business Geodemographic Data

### Geographic Distribution of Loans

There are no low-income census tracts in the AA and after 2010 census data changes there were no moderate-tracts in the AA either. As such, a geographic distribution analysis was not meaningful in 2012-2013. In 2011, our analysis focused on the bank’s performance in the moderate-income tracts; however, this analysis does not provide a very meaningful analysis given the low percentage of AA farms and aggregate lending performance data.

### Geographic Distribution of Agricultural Loans

The geographic distribution of agricultural loans reflects reasonable penetration throughout the AA in 2011. While the bank did not make any loans in the moderate-income tracts, we considered the small volume of aggregate lending in these tracts as well as the small percentage of farms in these tracts. Further, the moderate-income tracts were located in the far southern portion of the county where the bank does not have a presence.

<b>2011 Geographic Distribution of Loans to Farms in ND Non-MSA</b>				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Farms	0.00%	1.28%	40.15%	58.57%
Aggregate Lending Data	0.00%	0.29%	28.61%	71.09%
% of Number of Bank Loans	0.00%	0.00%	30.00%	70.00%

Source: Loan Sample; 2011 Peer Lending Data; 2011 Business Geodemographic Data

## **Responses to Complaints**

The bank has not received any complaints regarding its CRA performance during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the community development test in North Dakota is rated Needs to Improve.

The bank's level of community development activity is poor. We noted no community development loans or services and very limited community development investments in the AA. The lack of community development activity in this AA is somewhat explainable given that the area includes only one branch location and represents the least deposit and loan origination volume of the branches. Deposit share and loan origination within this AA account for four percent and six percent of American Federal's total volume, respectively.

However, as indicated by our community contact, there is a need for affordable housing in the area and opportunities are available for local financial institutions to get involved on local volunteer boards.

## **Number and Amount of Community Development Loans**

The bank did not originate any community development loans in the ND Non-MSA AA during the review period.

## **Number and Amount of Qualified Investments**

During the review period, the bank made three qualified donations in the AA totaling less than \$1,000 which supported community services for low- and moderate-income individuals.

## **Extent to Which the Bank Provides Community Development Services**

There were no bank employees that provided community development services during the review period.

## **Responsiveness to Community Development Needs**

American Federal demonstrated poor responsiveness to community development needs in its AA through community development loans and qualified investments and services considering the bank's capacity and the need and availability for community development in the bank's AA.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: (01/01/11 to 06/30/13) Community Development Test: (01/01/10 to 06/30/13)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
American Federal Bank (American Federal) Fargo, North Dakota	Farm loans HMDA loans Community Development	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
NA		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Fargo-Moorhead, ND-MN MMSA Grand Forks, ND-MN MMSA Minnesota Nonmetropolitan Area North Dakota Nonmetropolitan Area	Full-Scope Full-Scope  Full-Scope Full-Scope	

## Appendix B: Summary of Multistate Metropolitan Area and State Ratings

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Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
American Federal	Satisfactory	Satisfactory	Satisfactory
Fargo-Moorhead MMSA	Satisfactory	Satisfactory	Satisfactory
Grand Forks MMSA	Satisfactory	Satisfactory	Satisfactory
Minnesota	Satisfactory	Satisfactory	Satisfactory
North Dakota	Needs to Improve	Needs to Improve	Needs to Improve