



## **PUBLIC DISCLOSURE**

February 02, 2016

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Alerus Financial, National Association  
Charter Number 13790

401 Demers Avenue  
Grand Forks, ND 58201

Office of the Comptroller of the Currency

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

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**Table of Contents**

**OVERALL CRA RATING ..... 2**

**DEFINITIONS AND COMMON ABBREVIATIONS ..... 3**

**DESCRIPTION OF INSTITUTION ..... 7**

**SCOPE OF THE EVALUATION..... 8**

**FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW ..... 9**

**STATE RATINGS ..... 10**

    STATE OF NORTH DAKOTA ..... 10

    STATE OF MINNESOTA ..... 19

    STATE OF ARIZONA ..... 26

**APPENDIX A: SCOPE OF EXAMINATION..... A-1**

**APPENDIX B: SUMMARY OF MULTISTATE METROPOLITAN AREA AND STATE RATINGS..... B-1**

**APPENDIX C: MARKET PROFILES FOR FULL-SCOPE AREAS ..... C-1**

**APPENDIX D: TABLES OF PERFORMANCE DATA ..... D-1**

## Overall CRA Rating

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

The following table indicates the performance level of Alerus Financial, National Association with respect to the Lending, Investment, and Service Tests:

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

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

The major factors that support this rating include:

- Alerus’ overall Lending Test performance is good. Alerus demonstrates good lending activity, adequate geographic distribution, and good borrower distribution. By rating areas, Lending Test performance is good in the State of North Dakota, the State of Minnesota, and the State of Arizona.
- Alerus’ Investment Test performance is adequate overall. By rating areas, Investment performance was poor in the State of North Dakota, good in the State of Minnesota, and excellent in the State of Arizona.
- Alerus’ Service Test performance is good overall. This rating is based on the location of branches and ATMs, accessibility to low- and moderate-income individuals, hours of locations, and participation in community development organizations.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

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

Activities that revitalize or stabilize-

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

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder' and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

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

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

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

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

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

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine

the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

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

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

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

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

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

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

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

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

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

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

**Small Loan(s) to Farm(s):** A loan included in ‘loans to small farms’ as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders’ equity, perpetual preferred shareholders’ equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

## Description of Institution

Alerus Financial, National Association (Alerus) is an interstate bank headquartered in Grand Forks, North Dakota. The bank is wholly-owned by Alerus Financial Corporation (Alerus FC) of Grand Forks, ND which had total assets of \$1.575 billion as of September 30, 2015.

Alerus is a full-service commercial bank offering a variety of loan and deposit products. The North Dakota and Minnesota assessment areas (AA) focus on both commercial and residential real estate lending while the Arizona AA has a commercial focus. Alerus has two operating subsidiaries. Alerus Securities Corporation provides brokerage and investment services and Alerus Investment Advisory Services is a registered investment agency. The bank had another operating subsidiary, Alerus Financial Insurance Services, which ceased operations in 2015. The bank did not elect to have affiliate activity considered in this evaluation.

As of September 30, 2015, Alerus had fifteen locations in North Dakota, Minnesota, and Arizona. The main office and four branches are located in the Grand Forks ND Metropolitan Statistical Area (MSA). The Fargo ND MSA has five branches, the Minneapolis MSA has four branches, and the Phoenix MSA has one branch. In July of 2014, Alerus opened a branch in downtown Minneapolis, which was acquired as part of the acquisition of Private Bank Minnesota.

As of September 30, 2015, Alerus had \$1.569 billion in total assets. Net loans and leases represent 76 percent of total assets. The loan portfolio is comprised of 55 percent commercial loans, 5 percent agricultural loans, 33 percent residential real estate loans, and 17 percent consumer loans. Tier One Capital is \$166 million or 10.57 percent of total assets.

There are no known financial, legal, or other factors that impede Alerus' ability to help meet the credit needs of its AA. Alerus received a Satisfactory rating at the last CRA examination dated January 28, 2013.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

We evaluated Alerus' small business, small farm, and home mortgage data for the Lending Test for the period beginning January 1, 2012 through December 31, 2014. We used 2014 peer lending data for home mortgage, small business, and farm loans to compare Alerus' lending performance to other reporting lenders in the AAs. All Home Mortgage Disclosure Act (HMDA) loans were evaluated using 2010 census data. We evaluated the bank's business and community development lending based on data collected by Alerus.

In 2014, the Minneapolis MSA had a change in the census tract (CT) designations due to updated demographic information. Due to this change, we analyzed 2012 and 2013 information separately from 2014 information for all AAs. This is reflected in the tables in Appendix D of this report.

Home mortgage loans represent the largest portion of lending activity during the evaluation period with 11,517 originations, totaling \$2.521 billion. These account for 83 percent by number and 82 percent by dollar volume of loans evaluated. Small loans to businesses during the same timeframe accounted for 2,133 loans, totaling \$517 million or 15 percent of loans by number and 17 percent by volume. Home mortgage loans are the predominant loan products in the North Dakota MSAs and the Minnesota MSA. In the State of North Dakota, home mortgage loans account for 63 percent of the total loans originated and 55 percent of the total dollar volume. In the Minnesota MSA, home mortgage loans account for 93 percent of the total originations and 92 percent of the total dollar volume. In the Arizona MSA, the predominant product is small loans to businesses which account for 82 percent of total originations and 85 percent of the total dollar volume.

Community Development (CD) investments, services, and loans were evaluated from July 1, 2012 through September 30, 2015. We considered grants, donations, and investments made by Alerus with additional consideration given to the responsiveness of those grants and investments to identified community development needs. The Service Test was primarily based on the delivery of products and services within the AAs with additional consideration given to CD services provided by Alerus employees.

We used deposit information, reported to the Federal Deposit Insurance Corporation (FDIC) as of June 30, 2015, to determine the bank's deposit market share and presence within each AA.

### Data Integrity

Prior to the start of this CRA evaluation, we reviewed the accuracy of HMDA, small business, and small farm loan data collected and reported by Alerus during the evaluation period. We found the data to be reliable for the use in our evaluation. During this evaluation, we also reviewed loans, investments, and services presented by management with a primary purpose of community development. Those activities that meet the regulatory definition of community development were included in this evaluation.

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

In each state where the bank has an office, we selected one AA for each full-scope review. Alerus has four AAs in North Dakota, Minnesota, and Arizona. For purposes of this evaluation, we selected the Grand Forks MSA AA, the Minneapolis MSA AA, and the Phoenix MSA AA for full-scope reviews. We performed a limited-scope review of the Fargo MSA AA. Refer to the Scope section under each State rating for details regarding these areas.

## **Ratings**

Alerus' overall rating is a blend of the state ratings. We placed the most weight on the bank's performance in the State of North Dakota since the Grand Forks and Fargo AAs represents 68.43 percent of the bank's deposit base. The State of Minnesota has 28.10 percent of the deposit base, and the State of Arizona has 3.47 percent of the deposit base. Refer to the Scope section under each state rating for additional details.

## **Inside/Outside Ratio**

Alerus made a majority of its loans within each of its designated AAs reflecting good responsiveness to the credit needs of the communities they serve. During the evaluation period, 86.64 percent by number and 85.52 percent by dollar volume of all reportable loans were made within one of the AAs.

In the State of North Dakota, 92.21 percent by number and 92.23 percent by dollar volume of loans were made in one of the AAs. In the State of Minnesota, 87.88 by number and 88.38 percent by dollar volume of reportable loans were made in the AA. In the State of Arizona, 92.12 percent by number and 94.61 percent by dollar volume of loans were made in the bank's designated AA.

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

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

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

## State Ratings

### State of North Dakota

**CRA rating for North Dakota<sup>1</sup>: High Satisfactory**

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

**The Investment Test is rated: Needs to Improve**

**The Service Test is rated: High Satisfactory**

The major factors that support this rating include:

- High Satisfactory Lending Test performance is demonstrated by good geographic distribution, adequate borrower distribution and lending activity, and a positive impact from community development lending.
- Needs to Improve Investment Test performance is demonstrated by the low volume of community development investments that benefit the State of North Dakota.
- High Satisfactory Service Test performance is demonstrated by good branch distribution and hours of operations, excellent ATM distribution, and a good level of community development services provided to the community.

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

The State of North Dakota is comprised of the Grand Forks ND MSA and the Fargo ND MSA. The Grand Forks ND MSA AA includes Grand Forks County in North Dakota and the western portion of Polk County in Minnesota. The Grand Forks MSA AA contains the main office, four branch locations, and seven deposit-taking ATMs. These branches account for 33.33 percent of the bank's total branch network. All branches are located in North Dakota. There were 25 CTs in the AA, one of which was low-income and four were moderate-income.

The Fargo ND MSA AA includes Cass County in North Dakota and the majority of Clay County in Minnesota. The Fargo ND MSA AA contains five branch locations and four deposit-taking ATMs. These branches account for 33.33 percent of the bank's total branch network. Of the 44 CTs in the AA, two were low-income and seven were moderate-income.

During the January 1, 2012 through December 31, 2013 Lending Test review period, 26.27 percent by number of loan originations and purchases were derived in the State of North Dakota. The Grand Forks MSA AA accounted for 12.94 percent by number and 9.46 percent by dollar volume of all loans originated by the bank. Of these loans, 68.04 percent were home mortgage loans and 31.96 percent were small business and small farm loans, by number originated. The Fargo MSA AA accounted for 13.33 percent by number and 10.24 percent by dollar volume of all loan originations and purchases. Of

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<sup>1</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

these, 62.27 percent were home mortgage loans and 57.76 percent were small business and small farm loans, by number of originations and purchases.

During the January 1, 2014 through December 31, 2014 Lending Test review period, 27.31 percent of loan originations and purchases were from the State of North Dakota. Loan originations in the Grand Forks MSA AA accounted for 13.29 percent by number and 10.35 percent by dollar volume of all loans originated by the bank. Of these loans, 59.70 percent were home mortgage loans and 40.30 percent were small business and small farm loans, by number originated. In the Fargo MSA AA, 14.02 percent by number and 10.24 percent by dollar volume of loan originations and purchases were derived from the AA. Of these loans, 51.60 percent were home mortgage loans and 48.40 percent were small business and small farm loans, by number.

Per the June 30, 2015 FDIC Deposit Market Share Report, Alerus had \$896 million or 68.43 percent of its deposits in the State of North Dakota making this the largest area of Alerus' operations. The bank is ranked third out of 41 institutions with a market share of 9.82 percent behind Bell State Bank & Trust and Wells Fargo Bank, NA who have a combined market share of 36.90 percent.

Deposits in the Grand Forks MSA AA account for 45.07 percent of the bank's total deposits. Based on the June 30, 2015 FDIC Deposit Market Share Report, there were 21 financial institutions in the AA. Alerus ranked first, with a deposit market share of 22.72 percent. Bremer Bank ranked second with 19.27 percent of deposits, and U.S. Bank ranked third with 9.87 percent of deposits.

Deposits in the Fargo MSA AA account for 23.36 percent of the bank's total deposits. Alerus ranked sixth of the 27 institutions in this AA with a deposit market share of 4.69 percent. The top three institutions with the greatest market shares in this AA were Bell State Bank & Trust, Wells Fargo Bank, NA, and U.S. Bank, NA with a combined market share of 57.16 percent.

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

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

Alerus had two AAs in the State of North Dakota. We selected the Grand Forks ND MSA AA for a full-scope review based on the deposits derived from this area. As a result, this AA carried the most weight in assigning the state rating. We performed a limited-scope review of the Fargo ND MSA AA. For our review of the Grand Forks AA, home mortgage loans were the primary product for both the January 1, 2012 through December 31, 2013 and January 1, 2014 through December 31, 2014 Lending Test evaluation periods. In the Fargo AA, home mortgage loans were the primary product for the January 1, 2012 through December 31, 2013 evaluation period and home mortgage and small business loans were the primary products for the January 1, 2014 through December 31, 2014 review period. We also considered information from community organizations for this evaluation.

We did not analyze the geographic distribution of multifamily loans in the Grand Forks ND MSA or the Fargo ND MSA as the bank did not make a sufficient amount of these loans to analyze. However, this information is included in Appendix D, Table 5.

## **LENDING TEST**

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

The bank's performance under the Lending Test in the State of North Dakota is rated High Satisfactory. Based on a full-scope review, the bank's performance in the Grand Forks MSA AA is good.

### **Lending Activity**

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

Lending levels reflect adequate responsiveness to area credit needs and in relation to the bank's deposit market share. According to the June 30, 2015 FDIC Summary of Deposit Market Share Report, Alerus has the largest share of deposits of the 21 financial institutions with branch offices in the Grand Forks ND AA. Alerus' share represents 22.72 percent of the aggregate market share.

During the evaluation period for home mortgage purchase loans, Alerus ranked second of 91 lenders that reported HMDA data with an 11.08 percent market share. For home refinance loans, Alerus ranked fourth out of 75 lenders with a 7.84 percent market share. For home improvement loans, Alerus ranked second out of 28 lenders with a 17.37 percent market share. Alerus ranked fifth of 38 financial institutions reporting small loans to businesses and farms with an 8.39 percent market share.

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

The geographic distribution of Alerus' home mortgage loans and small loans to businesses and farms reflects good distribution throughout the Grand Forks ND MSA AA.

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

Refer to Tables 2, 3, 4, and 5 in the Grand Forks ND MSA section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The geographic distribution of Alerus' home mortgage loans reflects good penetration throughout the Grand Forks ND AA.

#### **Home Purchase Loans**

The geographic distribution of home purchase loans in 2012 and 2013 reflects adequate penetration throughout the Grand Forks ND AA. Alerus' lending in the low-income CT is below the percentage of owner-occupied units in the AA and above those in the moderate-income CT. In addition, Alerus' market share of loans was below the overall market share in the low-income geographies but above the overall market share in the moderate-income geographies.

The geographic distribution of home purchase loans in 2014 reflects good penetration throughout the Grand Forks ND AA. Alerus' lending in the low-income CT is below the percentage of owner-occupied units in the AA. In addition, the bank's market share of loans in these areas is lower than the overall

market share in these geographies. Alerus' lending in the moderate-income areas exceeds the demographic information and the overall market share.

### **Home Refinance Loans**

The geographic distribution of home refinance loans in 2012 and 2013 reflects good penetration throughout the Grand Forks ND AA. Alerus' lending in both the low- and moderate-income CTs is near to the percentage of owner-occupied units in the AA. Alerus' market share of loans was somewhat below the overall market share in the low- and moderate-income geographies.

The geographic distribution of home refinance loans in 2014 reflects good penetration throughout the Grand Forks ND AA. Alerus' lending in the low-income CT is below the percentage of owner-occupied units in the AA and the overall market share. However, Alerus' lending in the moderate-income areas is near to both the demographic information and the overall market share.

### **Home Improvement Loans**

The geographic distribution of home improvement loans in 2012 and 2013 reflects excellent penetration throughout the Grand Forks ND AA. Alerus' lending in both the low- and moderate-income CTs exceeds the percentage of owner-occupied units in the AA. In addition, Alerus' market share of loans exceeds the overall market share in the moderate-income geographies but is below the overall market share in the low-income geographies.

The geographic distribution of home improvement loans in 2014 reflects good penetration throughout the Grand Forks ND AA. Alerus' lending in the low-income CT is below the percentage of owner-occupied units in the AA and the overall market share. However, Alerus' lending in the moderate-income areas exceeds the demographic information and the overall market share.

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

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

The geographic distribution of small loans to businesses is excellent.

The percentage of Alerus' small loans to businesses from 2012 and 2013 in low-income geographies is below the percentage of businesses located in low-income geographies. However, Alerus' percentage of small loans to businesses in moderate-income CTs exceeds the demographic information. In addition, Alerus' market share of loans in both low- and moderate-income geographies exceeds the overall market share.

For loans originated or purchased in 2014, the percentage of Alerus' small loans to businesses in both the low- and moderate-income geographies exceeds the percentage of businesses located in these areas. In addition, Alerus' market share of loans in both low- and moderate-income geographies exceeds the overall market share.

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

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

The geographic distribution of small loans to farms is poor.

The percentage of Alerus' small loans to farms from 2012 and 2013 in both low- and moderate-income geographies is well below the percentage of farms located in these areas. In addition, Alerus' market share of loans in both low- and moderate-income geographies is well below the overall market share.

For loans originated or purchased in 2014, the percentage of Alerus' small loans to farms in both the low- and moderate-income geographies is well below the percentage of farms located in these areas. In addition, Alerus' market share of loans in both low- and moderate-income geographies is well below the overall market share.

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

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

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

The borrower distribution of Alerus' home mortgage loans and small loans to businesses and farms reflects an overall good distribution to low- and moderate-income individuals and to businesses and farms of different sizes throughout the Grand Forks ND AA.

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

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

The borrower distribution of Alerus' home mortgage loans reflects good distribution throughout the Grand Forks ND AA to borrowers of different income levels.

#### **Home Purchase Loans**

The borrower distribution of home purchase loans in 2012 and 2013 reflects good distribution to borrowers of different income levels throughout the AA. The percentage of loans to low-income borrowers is somewhat below the percentage of low-income families in the AA but exceeds the overall market share. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families and is near the overall market share of moderate-income borrowers.

The borrower distribution of home purchase loans in 2014 reflects adequate distribution to borrowers of different income levels in the Grand Forks ND AA. The percentage of loans to low-income borrowers is below the percentage of low-income families as well as the overall market share. The percentage of loans to moderate-income borrowers is near to the percentage of moderate-income families but is somewhat below the overall market share of moderate-income borrowers.

#### **Home Refinance Loans**

The borrower distribution of home refinance loans in 2012 and 2013 reflects adequate distribution to borrowers of different income levels throughout the Grand Forks ND AA. The percentage of loans to low-income borrowers is below the percentage of low-income families in the AA and somewhat below

the overall market share. The percentage of loans to moderate-income borrowers is somewhat below the percentage of moderate-income families and is below the overall market share of moderate-income borrowers.

The borrower distribution of home refinance loans in 2014 reflects good distribution to borrowers of different income levels in the Grand Forks ND AA. The percentage of loans to low-income borrowers is somewhat below the percentage of low-income families but exceeds the overall market share of loans to these families. The percentage of loans to moderate-income borrowers is near to the percentage of moderate-income families but is somewhat below the overall market share of moderate-income borrowers.

### **Home Improvement Loans**

The borrower distribution of home improvement loans in 2012 and 2013 reflects good distribution to borrowers of different income levels throughout the Grand Forks ND AA. The percentage of loans to low-income borrowers is well below the percentage of low-income families in the AA and the overall market share. However, the percentage of loans to moderate-income borrowers exceeds both the percentage of moderate-income families in the AA and the overall market share of moderate-income borrowers.

The borrower distribution of home improvement loans in 2014 reflects good distribution to borrowers of different income levels in the Grand Forks ND AA. The percentage of loans to low-income borrowers is below the percentage of low-income families but somewhat near to the overall market share. The percentage of loans to moderate-income borrowers exceeds both the percentage of moderate-income families and the overall market share of moderate-income borrowers.

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

Refer to Table 11 in the Grand Forks ND MSA section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

The borrower distribution of small loans to businesses is good.

The percentage of Alerus' small loans to small businesses from 2012 and 2013 is somewhat below the percentage of small businesses in the AA but exceeds the market share of small businesses in the AA.

For loans originated or purchased in 2014, the percentage of Alerus' small loans to small businesses is below the percentage of small businesses in the AA but comparable to the market share of small businesses in the AA.

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

Refer to Table 12 in the Grand Forks ND MSA section of Appendix D for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to farms.

The borrower distribution of small loans to farms is good.

The percentage of Alerus' loans to small farms from 2012 and 2013 is below the percentage of small farms in the AA but exceeds the market share of small farms in the AA.

For loans originated or purchased in 2014, the percentage of Alerus' small loans to small farms is below the percentage of small farms in the AA but exceeds the market share of small farms in the AA.

### **Community Development Lending**

Refer to Table 1 Lending Volume in the Grand Forks ND MSA section of Appendix D for the facts and data used to evaluate the bank's level of community development lending. This table includes all community development loans, including multifamily loans that also qualify as community development loans. In addition, Table 5 includes geographic lending data on all multi-family loans, including those that also qualify as community development loans. Table 5 does not separately list community development loans.

Community development lending had a positive impact on the lending performance in the Grand Forks ND AA. Alerus originated two community development loans in the AA totaling \$7.4 million. In addition, the bank is a preferred Small Business Administration lender offering both SBA 504 and 7(a) loans as well as mortgage lending programs to assist low- and moderate-income borrowers. These programs include North Dakota First time Home Buyer Program, HomeAccess, and USDA Rural Housing Program.

### **Product Innovation and Flexibility**

Alerus did not have any loan products that were considered to be innovative or flexible.

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

Based on a limited-scope review, the bank's performance under the Lending Test in the Fargo ND MSA AA is not inconsistent with the bank's overall High Satisfactory performance in the State of North Dakota for all years in the evaluation period. Refer to Tables 1 through 13 in the State of North Dakota section of Appendix D for the facts and data that support these conclusions.

## **INVESTMENT TEST**

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

The bank's performance under the Investment Test in the State of North Dakota is rated Needs to Improve. Based on a full-scope review, the bank's performance in the Grand Forks MSA AA is poor.

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

Alerus' level of investments is poor in the Grand Forks MSA AA given the bank's opportunities for investment in the AA. Alerus made 48 qualified donations, totaling \$473 thousand during the evaluation period. The bank's qualified investments consisted primarily of charitable contributions to various organizations that provide community services to low- and moderate-income individuals and support activities that promote economic development.

In addition to the AA qualified investments, Alerus had three prior period statewide investments with an outstanding balance of \$532 thousand as of September 30, 2015. These investments benefit small business development throughout the state of North Dakota and portions of Minnesota.

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

Based on a limited-scope review, the bank's performance under the Investment Test in the Fargo MSA AA is stronger than the bank's overall Needs to Improve performance in the State of North Dakota. This is based on the adequate volume of investments made in the Fargo MSA AA during the evaluation period. The bank made 37 qualifying donations, totaling \$873 thousand to organizations that benefit the Fargo MSA AA.

## **SERVICE TEST**

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

The bank's performance under the Service Test in the State of North Dakota is rated High Satisfactory. Based on a full-scope review, the bank's performance in the Grand Forks ND AA is good.

### **Retail Banking Services**

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

Branch distribution in the Grand Forks ND AA at the end of the evaluation period was good. Branches were accessible to most geographies and individuals of different income levels. There is one low-income CT in the AA and four moderate-income, accounting for 20.54 percent of the population. Of the five branches in the AA, none were located in the low-income CT and two were located in moderate-income CTs. There was also one branch located near the low-income CT and two branches located near moderate-income CTs, which improved branch accessibility. No branches were opened or closed during the evaluation period in this AA.

Branch hours and services do not vary in a way that would inconvenience portions of the AA, particularly low- and moderate-income geographies or individuals. Services offered are comparable among locations regardless of the income level of the geography. The bank offers extended hours at one branch in the AA as well as drive-up and Saturday hours at two branches.

The bank compliments its traditional service delivery methods with certain alternative delivery systems. Alternative delivery systems include telephone banking, banking by mail, mobile banking, online account opening, remote deposit capture for businesses, Internet banking, and account-to-account transfers. Internet banking includes account inquiry, transfers, bill pay, and loan payments. They offer checking accounts with no monthly fees and no minimum balance requirements. The bank also offers a checking account called Safe Checking. This product provides a checking account to those that have experienced financial difficulty in the past.

There were seven full-service ATMs in this AA. One was located in a low-income CT, two in moderate-income CTs, two in middle-income CTs, and two in upper-income CTs. Alerus is part of the MoneyPass network, which provides access to a network of surcharge free ATMs across the country. In

addition, they offer customers two free ATM transactions at ATMs that are non-proprietary and are not in the MoneyPass network

### **Community Development Services**

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

Alerus employees provided a good level of community development services in the Grand Forks ND-MN AA. Seventeen of Alerus' employees worked with 17 community development organizations for 861 hours during the evaluation period. In ten of the organizations, employees served in a leadership capacity. The organizations provide a variety of services to low- and moderate-income individuals and promote economic development.

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

Based on a limited-scope review, the bank's performance under the Service Test in the Fargo MSA AA is weaker than the bank's overall High Satisfactory performance in the State of North Dakota. This is primarily due to the location of branches and ATMs, which provide easy accessibility to low- and moderate-income people. All branches and ATMs in the Fargo MSA AA were located in middle- or upper-income CTs.

## State Rating

### State of Minnesota

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

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

**The Investment Test is rated: High Satisfactory**

**The Service Test is rated: High Satisfactory**

The major factors that support this rating include:

- High Satisfactory Lending Test performance is demonstrated by good geographic and borrower distribution, excellent lending activity, and a positive impact from community development lending.
- High Satisfactory Investment Test performance is demonstrated by a good volume of community development investments that benefit the State of Minnesota.
- High Satisfactory Service Test performance is demonstrated by poor branch and ATM distribution, adequate hours of operations, and an excellent level of community development services provided to the community.

### Description of Institution's Operations in Minnesota

The Minneapolis MSA AA includes Anoka, Dakota, Carver, Hennepin, Ramsey, and Washington Counties in Minnesota. The AA contains four branch locations and two deposit-taking ATMs. These branches account for 26.67 percent of the bank's total branch network. There were 683 CTs in the AA, 63 were low-income and 135 were moderate-income.

During the January 1, 2012 through December 31, 2013 Lending Test review period, loan originations in the Minneapolis MSA AA accounted for 71.47 percent by number and 77.28 percent by dollar volume of all loans originated by the bank. Of these loans, 94.59 percent were home mortgage loans and 5.41 percent were small business loans, by number originated.

During the January 1, 2014 through December 31, 2014 Lending Test review period, loan originations in the Minneapolis MSA AA accounted for 68.85 percent by number and 73.12 percent by dollar volume of all loans originated by the bank. Of these loans, 88.93 percent were home mortgage loans and 11.07 percent were small business and small farm loans, by number originated.

Deposits in the Minneapolis MSA AA account for 28.10 percent of the bank's total deposits. Based on the June 30, 2015 FDIC Deposit Market Share Report, there were 117 financial institutions in the AA. Alerus ranked twentieth with a deposit market share of 0.22 percent. The top three institutions with the greatest deposit market share were Wells Fargo Bank, U.S. Bank, and TCF National Bank. The three institutions combined accounted for 84.46 percent of deposits in the AA.

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<sup>2</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

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

## **Scope of Evaluation in Minnesota**

Alerus had one AA in the State of Minnesota so we performed a full-scope review on this AA. Home mortgage loans were the primary product for both the January 1, 2012 through December 31, 2013 and January 1, 2014 through December 31, 2014 Lending Test review periods.

For the January 1, 2012 through December 31, 2013 review period, we did not analyze the geographic or income distribution of home improvement loans, multifamily loans, or small loans to farms in the AA, as the bank did not make a sufficient amount of these loans to analyze. However, this information is included in Appendix D Tables 3, 5, 7, 9 and 12.

For the January 1, 2014 through December 31, 2014 review period, we did not analyze the geographic or income distribution of multifamily loans or small loans to farms in the AA, as the bank did not make a sufficient amount of these loans to analyze. However, this information is also included in Appendix D Tables 5, 7, and 12.

## **LENDING TEST**

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

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

### **Lending Activity**

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

Lending levels reflect excellent responsiveness to area credit needs and are strong in relation to the bank's deposit market share. According to the June 30, 2015 FDIC Summary of Deposit Market Share Report, Alerus has the twentieth largest share of deposits of the 117 financial institutions with branch offices in the Minneapolis AA. Alerus' share represents 0.22 percent of the aggregate market share.

During the evaluation period for home mortgage purchase loans, Alerus ranked fourth of 514 lenders that reported HMDA data with a 3.18 percent market share. For home refinance loans, Alerus ranked fourteenth out of 448 lenders with a 1.24 percent market share. For home improvement loans, Alerus ranked thirty-sixth out of 206 lenders with a 0.41 percent market share. Alerus ranked fourteenth of 115 financial institutions reporting small loans to businesses and farms with a 0.39 percent market share.

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

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

Refer to Tables 2, 3, 4, and 5 in the State of Minnesota section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The geographic distribution of Alerus' home mortgage loans reflects adequate penetration throughout the Minneapolis MSA AA.

### **Home Purchase Loans**

The geographic distribution of home purchase loans in 2012 and 2013 reflects good penetration throughout the Minneapolis MSA AA. Alerus' lending in the low-income CT is near to the percentage of owner-occupied units in the AA and below those in the moderate-income CT. Alerus' market share of loans was somewhat below the overall market share in the low- and moderate-income geographies.

The geographic distribution of home purchase loans in 2014 reflects good penetration throughout the Minneapolis MSA AA. Alerus' lending in the low-income CT exceeds the percentage of owner-occupied units in the AA and is near to the overall market share in these geographies. Alerus' lending in the moderate-income areas is somewhat below the demographic information and the overall market share.

### **Home Refinance Loans**

The geographic distribution of home refinance loans in 2012 and 2013 reflects poor penetration throughout the Minneapolis MSA AA. Alerus' lending in both the low- and moderate-income CTs is well below the percentage of owner-occupied units in the AA. Alerus' market share of loans was below the overall market share in the low- and moderate-income geographies.

The geographic distribution of home refinance loans in 2014 reflects adequate penetration throughout the Minneapolis MSA AA. Alerus' lending in the low- and moderate-income CTs is below the percentage of owner-occupied units in the AA. However, while Alerus' lending in the moderate-income areas is below the overall market share, the lending in the low-income areas is near to the overall market share.

### **Home Improvement Loans**

The geographic distribution of home improvement loans in 2012 and 2013 in the Minneapolis MSA AA was not analyzed due to the low volume of loan originations.

The geographic distribution of home improvement loans in 2014 reflects excellent penetration throughout the Minneapolis MSA AA. Alerus' lending in the low- and moderate-income CTs exceeds both the percentage of owner-occupied units in the AA and the overall market share.

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

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

The geographic distribution of small loans to businesses is adequate.

The percentage of Alerus' small loans to businesses from 2012 and 2013 in low-income geographies is below the percentage of businesses located in low-income geographies and somewhat below the overall market share. However, Alerus' percentage of small loans to businesses in moderate-income CTs exceeds the demographic information and is near to the overall market share.

For loans originated or purchased in 2014, Alerus' lending in the low-income geographies is below the percentage of businesses located in low-income geographies and the overall market share. However, Alerus' percentage of small loans to businesses in moderate-income CTs exceeds the demographic information and the overall market share.

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

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

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

The borrower distribution of Alerus' home mortgage loans and small loans to businesses reflects an overall good distribution to low- and moderate-income individuals and to businesses of different sizes throughout the Minneapolis MSA AA.

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

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

The borrower distribution of Alerus' home mortgage loans reflects good distribution throughout the Minneapolis MSA AA to borrowers of different income levels.

#### **Home Purchase Loans**

The borrower distribution of home purchase loans in 2012 and 2013 reflects good distribution to borrowers of different income levels throughout the Minneapolis MSA AA. The percentage of loans to low-income borrowers is below the percentage of low-income families in the AA and the overall market share. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families and is near the overall market share of moderate-income borrowers.

The borrower distribution of home purchase loans in 2014 reflects good distribution to borrowers of different income levels in the Minneapolis AA. The percentage of loans to low-income borrowers is below the percentage of low-income families as well as the overall market share. The percentage of loans to moderate-income borrowers exceeds the percentage of moderate-income families and is near to the overall market share of moderate-income borrowers.

#### **Home Refinance Loans**

The borrower distribution of home refinance loans in 2012 and 2013 reflects adequate distribution to borrowers of different income levels throughout the Minneapolis MSA AA. The percentage of loans to low-income borrowers is well below both the percentage of low-income families in the AA and the overall market share. The percentage of loans to moderate-income borrowers is somewhat below the percentage of moderate-income families and the overall market share of moderate-income borrowers.

The borrower distribution of home refinance loans in 2014 reflects adequate distribution to borrowers of different income levels in the Minneapolis MSA AA. The percentage of loans to low- and moderate-income borrowers is below the percentage of low- and moderate-income families and somewhat below the overall market share of loans to these borrowers.

### **Home Improvement Loans**

The analysis for borrower distribution of home improvement loans in 2012 and 2013 was not conducted for the Minneapolis MSA AA due to low loan volume.

The borrower distribution of home improvement loans in 2014 reflects excellent distribution to borrowers of different income levels in the Minneapolis MSA AA. The percentage of loans to low- and moderate-income borrowers exceeds the percentage of low- and moderate-income families. The percentage of loans to low-income borrowers also exceeds the overall market share. Loans to moderate-income borrowers is below the overall market share of moderate-income borrowers.

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

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

The borrower distribution of small loans to businesses is poor.

The percentage of Alerus' small loans to small businesses from 2012 and 2013 is well below the percentage of small businesses in the AA and below the market share of small businesses in the AA.

For loans originated or purchased in 2014, the percentage of Alerus' small loans to small businesses is well below the percentage of small businesses in the AA and below the market share of small businesses in the AA.

### **Community Development Lending**

Refer to Table 1 Lending Volume in the State of Minnesota section of Appendix D for the facts and data used to evaluate the bank's level of community development lending. This table includes all community development loans, including multifamily loans that also qualify as community development loans. In addition, Table 5 includes geographic lending data on all multi-family loans, including those that also qualify as community development loans. Table 5 does not separately list community development loans, however.

Community development lending had a positive impact on the lending performance in the Minneapolis MSA AA. Alerus originated eight community development loans in the AA totaling \$4.9 million. In addition, the bank is a preferred Small Business Administration lender offering both SBA 504 and 7(a) loans and well as mortgage lending programs to assist low- and moderate-income borrowers. These programs include North Dakota First time Home Buyer Program, HomeAccess, and USDA Rural Housing Program.

## **Product Innovation and Flexibility**

Alerus did not have any loan products that were considered to be innovative or flexible.

## **INVESTMENT TEST**

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

The bank's performance under the Investment Test in Minnesota is rated High Satisfactory. Based on a full-scope review, the bank's performance in the Minneapolis MSA is good.

Alerus' level of investments is good in the Minneapolis MSA AA given the bank's opportunities for investment in the AA. Alerus made 73 qualified grants and donations totaling \$1.9 million during the evaluation period. The bank's qualified investments consisted primarily of charitable contributions to various organizations that provide community services and affordable housing to low- and moderate-income individuals.

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

## **SERVICE TEST**

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

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

### **Retail Banking Services**

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

Branch distribution in the Minneapolis MSA AA at the end of the evaluation period was poor. Branches were accessible to limited portions of geographies and individuals of different income levels in the AA. There were 683 CTs in the AA - 63 were low-income and 135 were moderate-income, accounting for 25.25 percent of the population. Of the four branches in the AA, none were located in low- and moderate-income CTs. There was one branch located near a moderate-income CT.

Branch openings and closings have not adversely affected the accessibility of the bank's delivery systems to low- and moderate-income geographies or individuals. During the evaluation period, there was one branch opening in a middle-income CT.

Branch hours and services do not vary in a way that would inconvenience portions of the AA, particularly low- and moderate-income individuals. Services and hours of operation are comparable among locations regardless of the income level of the geography. The bank offers drive-up and Saturday hours at two branches in the AA.

The bank complements its traditional service delivery methods with certain alternative delivery systems. Alternative delivery systems include telephone banking, banking by mail, mobile banking, online account opening, remote deposit capture for businesses, Internet banking, and account-to-account transfers. Internet banking includes account inquiry, transfers, bill pay, and loan payments. They offer checking accounts with no monthly fees and no minimum balance requirements. The bank also offers a checking account called Safe Checking. This product provides a checking account to those that have experienced financial difficulty in the past.

There were two full-service ATMs in this AA; both were located in middle-income CTs. Alerus is part of the MoneyPass network, which provides access to a network of surcharge free ATMs across the country. In addition, they offer customers two free ATM transactions at ATMs that are non-proprietary and are not in the MoneyPass network.

### **Community Development Services**

The bank's level of community development services is excellent. This assessment is based on the opportunities in the AA and the type of organizations that benefit from the services provided.

Alerus employees provided an excellent level of community development services in the Minneapolis AA. Nineteen employees worked with 20 community development organizations for 762 hours during the evaluation period. In five of the organizations, employees served in a leadership capacity. The organizations provide a variety of services to low- and moderate-income individuals and provide affordable housing to low- and moderate-income persons.

## State Rating

### State of Arizona

**CRA Rating for Arizona<sup>3</sup>: High Satisfactory**  
**The Lending Test is rated: High Satisfactory**  
**The Investment Test is rated: Outstanding**  
**The Service Test is rated: Needs To Improve**

The major factors that support this rating include:

- High Satisfactory Lending Test performance is demonstrated by good geographic distribution and lending activity and poor borrower distribution. Community development lending had a neutral impact on the Lending Test performance.
- Outstanding Investment Test performance is demonstrated by the excellent volume of community development investments that benefit the State of Arizona.
- Needs to Improve Service Test performance is demonstrated by poor branch and ATM distribution, adequate hours of operations, and an adequate level of community development services provided to the community.

### Description of Institution's Operations in Arizona

The Phoenix MSA AA includes Maricopa County in Arizona. The AA contains one branch location and one deposit-taking ATM. This branch accounts for 6.67 percent of the bank's total branch network. There were 916 CTs in the AA, 86 were low-income and 135 were moderate-income.

During the January 1, 2012 through December 31, 2013 Lending Test review period, loan originations in the Phoenix MSA AA accounted for 2.25 percent by number and 3.01 percent by dollar volume of all loans originated by the bank. Of these loans, 21.98 percent were home mortgage loans and 78.02 percent were small business loans, by number originated.

During the January 1, 2014 through December 31, 2014 Lending Test review period, loan originations in the Phoenix MSA AA accounted for 3.84 percent by number and 5.14 percent by dollar volume of all loans originated by the bank. Of these loans, 11.68 percent were home mortgage loans and 88.32 percent were small business loans, by number originated.

Deposits in the Phoenix MSA AA account for 3.47 percent of the bank's total deposits. Based on the June 30, 2015 FDIC Deposit Market Share Report, there were 57 financial institutions in the AA. Alerus ranked forty-sixth with a deposit market share of 0.06 percent. The top three institutions with the greatest deposit market share were JP Morgan Chase, Wells Fargo Bank, and Bank of America. The three institutions combined account for 72.51 percent of deposits in the AA.

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

Refer to the market profile for the State of Arizona in Appendix C for detailed demographics and other performance context information for AAs that received full-scope reviews.

## **Scope of Evaluation in Arizona**

Alerus had one AA in the State of Arizona. As a result, we performed a full-scope review on this AA. Small loans to businesses were the primary product for both the January 1, 2012 through December 31, 2013 and January 1, 2014 through December 31, 2014 Lending Test review periods.

For the January 1, 2012 through December 31, 2013 review period, we did not analyze the geographic or income distribution of home improvement loans, multifamily loans, or small loans to farms in the AA as the bank did not make a sufficient amount of these loans to analyze. However, this information is included in Appendix D Tables 3, 5, 7, 9 and 12.

For the January 1, 2014 through December 31, 2014 review period, we did not analyze the geographic or income distribution of home purchase loans, home improvement loans, home refinance loans, multifamily loans, or small loans to farms in the AA as the bank did not make a sufficient amount of these loans to analyze. However, this information is also included in Appendix D Tables 2, 3, 4, 5, 7, 8, 9, 10 and 12.

## **LENDING TEST**

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

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

### **Lending Activity**

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

Lending levels reflect good responsiveness to area credit needs and in relation to the bank's deposit market share. According to the June 30, 2015 FDIC Summary of Deposit Market Share Report, Alerus has the forty-sixth largest share of deposits of the 57 financial institutions with branch offices in the Phoenix AA. Alerus' share represents 0.06 percent of the aggregate market share.

During the evaluation period for home mortgage purchase loans, Alerus ranked 261<sup>st</sup> of 613 lenders that reported HMDA data with a 0.01 percent market share. For home refinance loans, Alerus ranked 256<sup>th</sup> out of 504 lenders with a 0.02 percent market share. For home improvement loans, Alerus ranked 195<sup>th</sup> out of 212 lenders with a 0.02 percent market share. Alerus ranked 23<sup>rd</sup> of 165 financial institutions reporting small loans to businesses and farms with a 0.09 percent market share.

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

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

Refer to Tables 2, 3, 4, and 5 in the State of Arizona section of Appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The geographic distribution of Alerus' home mortgage loans reflects adequate penetration throughout the Phoenix MSA AA.

### **Home Purchase Loans**

The geographic distribution of home purchase loans in 2012 and 2013 reflects adequate penetration throughout the Phoenix MSA AA. Alerus' lending in the low-income CT is below the percentage of owner-occupied units in the AA and near to those in the moderate-income CT. Alerus' market shares of loans are low and do not allow for a meaningful analysis.

The volume of home purchase loans in 2014 is low and does not allow for a meaningful analysis of the geographic distribution.

### **Home Refinance Loans**

The geographic distribution of home refinance loans in 2012 and 2013 reflects poor penetration throughout the Phoenix MSA AA. Alerus' lending in both the low- and moderate-income CTs is well below the percentage of owner-occupied units in the AA. Alerus' market share of loans was low and did not allow for a meaningful analysis.

Alerus' home refinance loans did not have enough volume to conduct a meaningful analysis of the geographic distribution for 2014.

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

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

The geographic distribution of small loans to businesses is excellent.

The percentage of Alerus' small loans to businesses from 2012 and 2013 in low- and moderate-income geographies exceeds the percentage of businesses located in these geographies and exceeds the overall market share.

For loans originated or purchased in 2014, Alerus' lending in the low- and moderate-income geographies exceeds the percentage of businesses located in low- and moderate-income geographies and the overall market shares.

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

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

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

The borrower distribution of Alerus' home mortgage loans and small loans to businesses reflects an overall poor distribution to low- and moderate-income individuals and to businesses of different sizes throughout the Phoenix MSA AA.

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

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

The borrower distribution of Alerus' home mortgage loans reflects poor distribution throughout the Phoenix MSA AA to borrowers of different income levels.

### **Home Purchase Loans**

The borrower distribution of home purchase loans in 2012 and 2013 reflects poor distribution to borrowers of different income levels throughout the Phoenix MSA AA. The percentage of loans to low- and moderate-income borrowers is below the percentage of low- and moderate-income families in the AA. Alerus' lending market share and the overall market share are low and do not allow for a meaningful analysis.

Alerus' home purchase loans did not have enough volume to conduct a meaningful analysis of the borrower distribution for 2014.

### **Home Refinance Loans**

The borrower distribution of home refinance loans in 2012 and 2013 reflects poor distribution to borrowers of different income levels throughout the Phoenix MSA AA. The percentage of loans to low- and moderate-income borrowers is below the percentages of low- and moderate-income families in the AA. The overall market shares are low and do not allow for a meaningful analysis.

Alerus' home refinance loans did not have enough volume to conduct a meaningful analysis of the borrower distribution for 2014.

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

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

The borrower distribution of small loans to businesses is poor.

The percentage of Alerus' small loans to small businesses from 2012 and 2013 is well below the percentage of small businesses in the AA and below the market share of small businesses in the AA.

For loans originated or purchased in 2014, the percentage of Alerus' small loans to small businesses is well below the percentage of small businesses in the AA and below the market share of small businesses in the AA.

## **Community Development Lending**

Refer to Table 1 Lending Volume in the State of Arizona section of Appendix D for the facts and data used to evaluate the bank's level of community development lending. This table includes all community development loans, including multifamily loans that also qualify as community development loans. In addition, Table 5 includes geographic lending data on all multi-family loans, including those that also qualify as community development loans. Table 5 does not separately list community development loans, however.

Alerus did not have any community development lending in the Phoenix MSA AA during the evaluation period.

### **Product Innovation and Flexibility**

Alerus did not have any loan products that were considered to be innovative or flexible.

## **INVESTMENT TEST**

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

The bank's performance under the Investment Test in Arizona is rated Outstanding. Based on a full-scope review, the bank's performance in the Phoenix MSA is excellent.

Alerus' level of investments is excellent in the Phoenix MSA AA given the bank's opportunities for investment in the AA. Alerus made four qualified grants and donations totaling \$484 thousand during the evaluation period. The bank's qualified investments consisted of charitable contributions to organizations that provide community services to low- and moderate-income individuals.

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

## **SERVICE TEST**

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

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

### **Retail Banking Services**

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

Branch distribution in the Phoenix MSA AA at the end of the evaluation period was very poor. Branches were inaccessible to significant portions of geographies and individuals of different income levels. Of the 916 CTs, 86 were low-income and 219 were moderate-income, accounting for 32.88 percent of the population. There was one branch located in the AA, in an upper-income CT. The branch is not located near any low- or moderate-income CTs.

Branch openings and closings have generally adversely affected the accessibility of the bank's delivery systems to low- and moderate-income geographies or individuals. During the evaluation period, there was one branch closing in the AA. The branch was located in a moderate-income CT.

The bank complements its traditional service delivery methods with certain alternative delivery systems. Alternative delivery systems include telephone banking, banking by mail, mobile banking, online account opening, remote deposit capture for businesses, Internet banking, and account-to-account transfers. Internet banking includes account inquiry, transfers, bill pay, and loan payments. They offer checking accounts with no monthly fees and no minimum balance requirements. The bank also offers a checking account called Safe Checking. This product provides a checking account to those that have experienced financial difficulty in the past.

There was one full-service ATM in the AA, located at the branch in an upper-income CT. Alerus is part of the MoneyPass network, which provides access to a network of surcharge free ATMs across the country. In addition, they offer customers two free ATM transactions at ATMs that are non-proprietary and are not in the MoneyPass network.

### **Community Development Services**

The bank's level of community development services is adequate. This assessment is based on the opportunities in the AA and the type of organizations that benefit from the services provided.

Alerus employees provided an adequate level of community development services in the Phoenix AA. Two employees worked with two community development organizations for 80 hours during the evaluation period. In one of the organizations, an employee served in a leadership capacity. The organizations provide services to low- and moderate-income individuals and promote economic development.

## Appendix A: Scope of Examination

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

<b>Time Period Reviewed</b>	Lending Test (excludes CD loans): 1/1/2012 to 12/31/2014 Investment and Service Tests and CD Loans: 7/1/2012 to 9/30/2015	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Alerus Financial, National Association (Alerus) Grand Forks, ND	Home Mortgage Loans Small Business Loans Small Farm Loans Community Development Loans, Investments, and Services	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
State of North Dakota  Grand Forks ND-MN MMSA Fargo ND-MN MMSA	Full-Scope Limited-Scope	#24220 #22020
State of Minnesota	Full-Scope	#33460
State of Arizona	Full-Scope	#38060

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

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RATINGS Alerus Financial, National Association				
Overall Bank:	Lending Test Rating*	Investment Test Rating	Service Test Rating	Overall Bank/State/Multistate Rating
Alerus Financial, NA	High Satisfactory	Low Satisfactory	High Satisfactory	Satisfactory
Multistate Metropolitan Area or State:				
North Dakota	High Satisfactory	Needs to Improve	High Satisfactory	High Satisfactory
Minnesota	High Satisfactory	High Satisfactory	High Satisfactory	High Satisfactory
Arizona	High Satisfactory	Outstanding	Needs to Improve	High Satisfactory

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

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

### State of North Dakota

#### Grand Forks ND Metropolitan Statistical Area

Demographic Information for Full-Scope Area: Grand Forks ND-MN AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	25	4.00	16.00	68.00	12.00	0.00
Population by Geography	88,787	5.87	14.67	66.08	13.38	0.00
Owner-Occupied Housing by Geography	20,172	0.57	14.00	67.99	17.44	0.00
Business by Geography	6,393	2.66	16.19	67.31	13.84	0.00
Farms by Geography	817	0.24	3.18	87.88	8.69	0.00
Family Distribution by Income Level	20,143	18.79	17.95	23.99	39.27	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	7,400	3.11	19.69	69.53	7.68	0.00
Median Family Income	64,258	Median Housing Value				131,450
FFIEC Adjusted Median Family Income 2014	69,800	Unemployment Rate (2010 US Census)				2.73%
Households Below Poverty Level	17%					

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

Source: 2010 US Census and 2014 FFIEC updated MFI

The Grand Forks ND MSA AA consists of Grand Forks County in North Dakota and part of Polk County in Minnesota. The AA includes 25 CTs, comprised of one low-income, four moderate-income, 17 middle-income, and three upper-income tracts. This AA includes the bank's main office plus four branch locations all in the State of North Dakota. There are seven ATMs throughout the AA, including one in the low-income CT and two in moderate-income CTs.

The University of North Dakota is the largest employer in the area, with 4,300 employees followed by Altru Health System and the Grand Forks Air Force Base with 4,200 and 3,900 employees, respectively. The Bureau of Labor Statistics reports a 2015 annual average unemployment rate of 3.1 percent for the Grand Forks MSA compared to 2.9 percent statewide and 6.2 percent nationwide.

Competition in the AA is strong with twenty-one institutions in the Grand Forks MSA market. Alerus ranks first with a deposit market share of 22.72 percent or \$590 million as of June 30, 2015. Major competitors include Bremer Bank, N.A. and U.S. Bank, N.A. with 19.27 percent and 9.87 percent of the deposit market share, respectively.

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

## State of Minnesota

### Minneapolis Metropolitan Statistical Area

Demographic Information for Full Scope Area: Minneapolis MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	683	9.22	19.77	41.58	28.84	0.59
Population by Geography	2,719,639	7.51	17.74	42.61	32.00	0.14
Owner-Occupied Housing by Geography	752,884	3.03	14.46	46.22	36.29	0.00
Business by Geography	228,248	5.41	16.12	42.09	36.36	0.02
Farms by Geography	5,100	1.71	11.08	49.31	37.90	0.00
Family Distribution by Income Level	672,410	19.47	17.30	22.46	40.76	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	247,264	12.34	26.05	43.08	18.52	0.00
Median Family Income		79,301	Median Housing Value		257,872	
FFIEC Adjusted Median Family Income for 2014		83,900	Unemployment Rate		3.76%	
Households Below Poverty Level		9%	(2010 US Census)			

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

Source: 2010 US Census and 2014 FFIEC updated MFI

The Minneapolis MSA AA consists of the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, and Washington. The AA complies with the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA consists of 683 CT, comprised of 63 low-income tracts, 135 moderate-income tracts, 284 middle-income tracts, 197 upper-income tracts, and four NA geographies. This AA contains four branches and two ATMs all in the State of Minnesota.

Major industries in the AA include education, health care, retail trade, and banking. The Minneapolis MSA is home to many Fortune 500 companies, including UnitedHealth Group, Target, Supervalu, 3M, U.S. Bancorp, Medtronic, and General Mills. The largest non-government employers are Target Corp. with 29,896 employees and Allina Health with 26,022 employees. The State of Minnesota is the second largest employer with 38,180 employees. An increase in employment in health services and government sectors occurred during the evaluation period. The Bureau of Labor Statistics reports an annual unemployment rate of 3.4 percent as of December 31, 2015 in the Minneapolis MSA compared to 3.7 percent statewide and 5.3 percent nationwide.

Competition in the AA is strong with 117 institutions in the Minneapolis MSA market. Alerus ranks 20<sup>th</sup> with a June 30, 2015 deposit market share of 0.22 percent or \$368 million. The top market share institutions are Wells Fargo, N.A. and U.S. Bank, N.A. with 44.73 percent and 36.40 percent, respectively.

Our evaluation included making contact with a community member to better understand the demographics and primary credit needs of the AA. Community credit needs primarily include quality affordable housing and home ownership assistance. The community contact indicated that financial institutions have generally done a good job of meeting the needs of the community.

## State of Arizona

### Phoenix Metropolitan Statistical Area

Demographic Information for Full-Scope Area: Phoenix MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	916	9.39	23.91	31.99	33.62	1.09
Population by Geography	3,817,117	8.42	24.46	33.25	33.69	0.18
Owner-Occupied Housing by Geography	916,515	3.61	20.72	35.75	39.90	0.02
Business by Geography	339,321	6.44	15.40	29.68	47.96	0.52
Farms by Geography	6,314	5.69	15.89	32.48	45.60	0.35
Family Distribution by Income Level	913,798	20.93	17.44	20.15	41.48	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	350,618	13.75	36.07	32.18	18.00	0.00
Median Family Income	64,408	Median Housing Value				258,903
FFIEC Adjusted Median Family Income for 2014	61,900	Unemployment Rate (2010 US Census)				3.48%
Households Below Poverty Level	12%					

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 US Census and 2014 FFIEC updated MFI

The Phoenix MSA AA consists of the entire Maricopa County. The AA includes 916 CT which include 86 designated as low-income, 219 moderate-income, 293 middle-income, and 308 upper-income as well as 10 in NA geographies. This AA has one branch location in an upper-income geography.

The major employers in the Phoenix MSA AA are Banner Health Systems with 26,472 employees, Wal-Mart Stores with 15,437 employees, and Wells Fargo & Co with 13,287 employees. An increase in employment in health services and government sectors occurred during the evaluation period. According to the Bureau of Labor Statistics, the December 31, 2015 unemployment rate was 4.7 percent, which is below the statewide rate of 5.5 percent and the nationwide rate of 5.3 percent.

Competition in the AA is strong with 57 institutions in the Phoenix MSA. Alerus ranks 46<sup>th</sup> of those 57 with a market share of \$45 million or 0.06 percent. The three banks that dominate the local market share include JPMorgan Chase Bank, N.A., Wells Fargo, N.A., and Bank of America, N.A. with market shares of 26.97 percent, 25.12 percent, and 20.42 percent, respectively.

Our evaluation included making contact with a community member to better understand the demographics and primary credit needs of the AA. The primary needs identified were affordable family housing and small business lending. The contact indicated that local banks are conservative and there are significant opportunities for local banks to meet the community's credit needs.



## Appendix D: Tables of Performance Data

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### Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan areas are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Deposit data are compiled by the FDIC and are available as of June 30<sup>th</sup> of each year. Tables without data are not included in this PE.

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

**Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. See Interagency Q&As \_\_.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.

**Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.

**Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.

**Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.

**Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because

small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.

**Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.

**Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.

**Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.

**Table 10. Borrower Distribution of Refinance Loans** - See Table 8.

**Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.

**Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.

**Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current

period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

## **Tables of Performance Data**

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**State of North Dakota**

**State of Minnesota**

**State of Arizona**

**Table 1. Lending Volume**

LENDING VOLUME		Geography: ALERUS 2012-2013						Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013				
Assessment Area:	% of Rated Area Loans (#) in MA/AA <sup>*</sup>	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans <sup>**</sup>		Total Reported Loans		% of Rated Area Deposits in MA/AA <sup>***</sup>
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
<b>Full Review:</b>												
Grand Forks MSA AA	12.94	907	129,659	319	64,579	107	20,960	0	0	1,333	215,198	100.00
Mpls MSA AA	71.47	6,963	1,641,520	398	116,307	0	0	4	1,477	5	1,759,304	100.00
Phoenix MSA AA	2.25	51	11,498	181	57,011	0	0	0	0	232	68,509	100.00
<b>Limited Review:</b>												
Fargo MSA AA	13.33	855	134,581	481	90,147	37	8,256	6	11,524	1,378	244,508	100.00

\* Loan Data as of December 31, 2013. Rated area refers to either state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is from July 01, 2012 to December 31, 2013.

\*\*\* Deposit Data as of January 05, 2016. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

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

Geographic Distribution: HOME PURCHASE		Geography: ALERUS 2012-2013						Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013							
Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA AA	378	8.43	0.57	0.00	14.00	15.61	67.99	65.08	17.44	19.31	12.49	0.00	15.96	11.73	12.89
Mpls MSA AA	3,695	82.44	3.12	3.06	16.54	14.18	47.55	40.38	32.78	42.38	3.39	2.83	2.99	3.13	3.96
Phoenix MSA AA	25	0.56	3.61	0.00	20.72	16.00	35.76	36.00	39.91	48.00	0.02	0.00	0.02	0.02	0.01
<b>Limited Review:</b>															
Fargo MSA AA	384	8.57	0.74	0.52	10.46	5.73	59.92	42.71	28.88	51.04	4.06	3.03	3.32	3.45	4.87

\* Based on 2013 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

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

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

Geographic Distribution: HOME IMPROVEMENT			Geography: ALERUS 2012-2013				Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013					Market Share (%) by Geography				
Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies							
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Grand Forks MSA AA	91	53.53	0.57	1.10	14.00	16.48	67.99	61.54	17.44	20.88	18.49	0.00	26.47	15.13	24.00	
Mpls MSA AA	9	5.29	3.12	0.00	16.54	0.00	47.55	66.67	32.78	33.33	0.07	0.00	0.00	0.10	0.06	
Phoenix MSA AA	1	0.59	3.61	0.00	20.72	0.00	35.76	0.00	39.91	100.00	0.03	0.00	0.00	0.00	0.05	
<b>Limited Review:</b>																
Fargo MSA AA	69	40.59	0.74	0.00	10.46	4.35	59.92	56.52	28.88	39.13	6.03	0.00	4.92	5.26	7.85	

\* Based on 2013 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

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

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

Geographic Distribution: HOME MORTGAGE REFINANCE															Geography: ALERUS 2012-2013		Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013	
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography							
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp			
<b>Full Review:</b>																		
Grand Forks MSA AA	431	10.49	0.57	0.46	14.00	13.46	67.99	56.84	17.44	29.23	10.09	8.33	9.41	7.95	17.39			
Mpls MSA AA	3,257	79.27	3.12	1.72	16.54	8.81	47.55	39.18	32.78	50.29	1.42	1.01	1.09	1.29	1.70			
Phoenix MSA AA	25	0.61	3.61	0.00	20.72	4.00	35.76	48.00	39.91	48.00	0.01	0.00	0.00	0.02	0.01			
<b>Limited Review:</b>																		
Fargo MSA AA	396	9.64	0.74	0.00	10.46	5.56	59.92	51.52	28.88	42.93	3.89	0.00	2.81	3.62	4.62			

\* Based on 2013 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

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

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

Geographic Distribution: MULTIFAMILY		Geography: ALERUS 2012-2013						Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013							
Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total	% of MF Units	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA AA	7	46.67	4.91	0.00	26.34	28.57	61.10	42.86	7.65	28.57	14.63	0.00	10.00	12.00	40.00
Mpls MSA AA	2	13.33	14.82	0.00	31.27	0.00	37.73	50.00	16.17	50.00	0.00	0.00	0.00	0.00	0.00
Phoenix MSA AA	0	0.00	15.31	0.00	37.05	0.00	28.83	0.00	18.81	0.00	0.00	0.00	0.00	0.00	0.00
<b>Limited Review:</b>															
Fargo MSA AA	6	40.00	9.27	0.00	22.37	16.67	51.14	83.33	17.22	0.00	0.96	0.00	0.00	1.72	0.00

\* Based on 2013 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Multi Family Units is the number of multi family units in a particular geography divided by the number of multifamily housing units in the area based on 2010 Census information.

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

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

Geographic Distribution: SMALL LOANS TO BUSINESSES												Geography: ALERUS 2012-2013				Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013				
Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography									
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	Overall	Low	Mod	Mid	Upp					
<b>Full Review:</b>																				
Grand Forks MSA AA	319	23.20	2.64	1.25	16.06	21.32	67.77	52.66	13.53	24.76	7.56	15.79	10.69	5.74	16.21					
Mpls MSA AA	398	28.95	5.57	2.26	18.50	19.35	42.67	48.49	33.23	29.90	0.38	0.22	0.35	0.45	0.33					
Phoenix MSA AA	177	12.87	6.38	19.21	15.25	25.42	29.45	25.42	48.44	29.94	0.14	0.34	0.24	0.14	0.08					
<b>Limited Review:</b>																				
Fargo MSA AA	481	34.98	3.28	2.08	21.38	28.69	50.60	40.33	24.74	28.90	4.19	4.05	5.05	3.84	4.53					

\* Based on 2013 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (20).

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

Geographic Distribution: SMALL LOANS TO FARMS		Geography: ALERUS 2012-2013						Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013							
Assessment Area:	Total Small Farm Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% of Farms*	% BANK Loans	% of Farms**	% BANK Loans	% of Farms*	% BANK Loans	% of Farms**	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA AA	107	74.31	0.22	0.00	3.31	0.93	89.06	88.79	7.40	10.28	6.47	0.00	1.41	6.54	15.38
Mpls MSA AA	0	0.00	1.78	0.00	12.45	0.00	54.16	0.00	31.61	0.00	0.00	0.00	0.00	0.00	0.00
Phoenix MSA AA	0	0.00	5.64	0.00	15.93	0.00	32.16	0.00	46.03	0.00	0.00	0.00	0.00	0.00	0.00
<b>Limited Review:</b>															
Fargo MSA AA	37	25.69	0.18	0.00	6.94	5.41	68.01	37.84	24.87	56.76	2.41	0.00	8.70	1.12	8.13

\* Based on 2013 Peer Small Business Data -- US and PR

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (20).

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

Borrower Distribution: HOME PURCHASE		Geography: ALERUS 2012-2013						Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013							
Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*				
	#	% of Total**	% Families***	% BANK Loans***	% Families <sup>4</sup>	% BANK Loans**	% Families***	% BANK Loans****	% Families**	% BANK Loans****	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA AA	378	8.43	18.79	10.27	17.95	20.54	23.99	22.16	39.27	47.03	14.86	15.63	13.40	13.19	16.85
Mpls MSA AA	3,695	82.44	20.04	10.59	17.70	22.07	22.83	23.75	39.43	43.58	3.99	2.44	3.36	4.11	4.95
Phoenix MSA AA	25	0.56	20.93	4.00	17.44	8.00	20.15	12.00	41.48	76.00	0.02	0.00	0.01	0.02	0.03
<b>Limited Review:</b>															
Fargo MSA AA	384	8.57	18.23	7.11	17.75	24.21	24.65	25.53	39.37	43.16	5.12	2.66	4.72	5.08	6.15

\* Based on 2013 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 0.3% of loans originated and purchased by bank.

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

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

Borrower Distribution: HOME IMPROVEMENT		Geography: ALERUS 2012-2013						Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013							
Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share				
	#	% of Total**	% Families***	% BANK Loans**	% Families <sup>5</sup>	% BANK Loans***	% Families***	% BANK Loans**	% Families***	% BANK Loans**	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA AA	91	53.53	18.79	2.41	17.95	19.28	23.99	28.92	39.27	49.40	18.47	0.00	20.41	13.04	25.29
Mpls MSA AA	9	5.29	20.04	16.67	17.70	0.00	22.83	66.67	39.43	16.67	0.05	0.00	0.00	0.09	0.06
Phoenix MSA AA	1	0.59	20.93	0.00	17.44	0.00	20.15	100.00	41.48	0.00	0.03	0.00	0.00	0.12	0.00
<b>Limited Review:</b>															
Fargo MSA AA	69	40.59	18.23	2.90	17.75	30.43	24.65	23.19	39.37	43.48	6.44	4.26	9.24	5.16	6.30

\* Based on 2013 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 6.5% of loans originated and purchased by bank.

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

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

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: ALERUS 2012-2013						Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013							
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*				
	#	% of Total**	% Families***	% BANK Loans****	% Families <sup>6</sup>	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans*** *	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA AA	431	10.49	18.79	4.77	17.95	13.84	23.99	22.67	39.27	58.71	11.72	9.52	6.37	9.72	15.87
Mpls MSA AA	3,257	79.27	20.04	4.36	17.70	14.79	22.83	23.30	39.43	57.55	1.50	0.84	1.13	1.47	1.82
Phoenix MSA AA	25	0.61	20.93	0.00	17.44	8.33	20.15	4.17	41.48	87.50	0.01	0.00	0.01	0.00	0.02
<b>Limited Review:</b>															
Fargo MSA AA	396	9.64	18.23	4.38	17.75	17.27	24.65	26.29	39.37	52.06	4.68	2.75	4.58	4.50	5.21

\* Based on 2013 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 8.3% of loans originated and purchased by bank.

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

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

Borrower Distribution: SMALL LOANS TO BUSINESSES									
					Geography: ALERUS 2012-2013			Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013	
Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share	
	#	% of Total**	% of Businesses***	% BANK****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Grand Forks MSA AA	319	23.13	69.87	50.78	49.53	22.26	28.21	7.56	9.08
Mpls MSA AA	398	28.86	72.93	46.48	30.65	30.65	38.69	0.38	0.33
Phoenix MSA AA	181	13.13	72.34	25.97	29.28	31.49	39.23	0.14	0.08
<b>Limited Review:</b>									
Fargo MSA AA	481	34.88	71.03	54.26	55.09	21.62	23.28	4.19	5.76

\* Based on 2013 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 20).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 1.16% of small loans to businesses originated and purchased by the bank.

**Table 12. Borrower Distribution of Small Loans to Farms**

Borrower Distribution: SMALL LOANS TO FARMS		Geography: ALERUS 2012-2013			Evaluation Period: JANUARY 1, 2012 TO DECEMBER 31, 2013				
Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share	
	#	% of Total**	% of Farms***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$500,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Grand Forks MSA AA	107	74.31	96.91	71.03	36.45	34.58	28.97	6.47	8.71
Mpls MSA AA	0	0.00	97.02	0.00	0.00	0.00	0.00	0.00	0.00
Phoenix MSA AA	0	0.00	95.17	0.00	0.00	0.00	0.00	0.00	0.00
<b>Limited Review:</b>									
Fargo MSA AA	37	25.69	97.80	59.46	27.03	43.24	29.73	2.41	2.56

\* Based on 2013 Peer Small Business Data -- US and PR

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B - 20).

\*\*\*\* Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 0.00% of small loans to farms originated and purchased by the bank.

**Table 1. Lending Volume**

LENDING VOLUME		Geography: ALERUS 2014						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014				
Assessment Area:	% of Rated Area Loans (#) in MA/AA	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
<b>Full Review:</b>												
Grand Forks MSA AA	13.29	283	39,282	142	34,413	49	9,825	2	7,413	476	90,933	0.00
Mpls MSA AA	68.85	2,184	518,034	270	71,474	2	350	4	3,471	2,460	592,382	0.00
Phoenix MSA AA	3.84	16	4,586	121	36,900	0	0	0	0	137	41,486	0.00
<b>Limited Review:</b>												
Fargo MSA AA	14.02	258	41,867	221	46,450	21	3,518	1	3,777	501	95,612	0.00

\* Loan Data as of December 31, 2014. Rated area refers to either state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is from January 01, 2014 to September 30, 2015.

\*\*\* Deposit Data as of January 05, 2016. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

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

Geographic Distribution: HOME PURCHASE		Geography: ALERUS 2014						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014							
Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% Owner Occ <sup>***</sup> Units	% BANK Loans <sup>****</sup>	% Owner Occ Units <sup>***</sup>	% BANK Loans	% Owner Occ Units <sup>***</sup>	% BANK Loans	% Owner Occ Units <sup>***</sup>	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA AA	187	8.64	0.57	0.00	14.00	21.39	67.99	59.36	17.44	19.25	13.06	0.00	18.87	11.64	13.53
Mpls MSA AA	1,788	82.62	3.03	3.08	14.46	11.74	46.22	41.67	36.29	43.51	3.19	3.06	2.57	2.96	3.71
Phoenix MSA AA	7	0.32	3.61	0.00	20.72	14.29	35.76	28.57	39.91	57.14	0.01	0.00	0.01	0.01	0.01
<b>Limited Review:</b>															
Fargo MSA AA	182	8.41	0.74	1.10	10.46	6.59	59.92	41.21	28.88	51.10	3.45	6.06	2.85	2.80	4.32

\* Based on 2014 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

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

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

Geographic Distribution: HOME IMPROVEMENT		Geography: ALERUS 2014						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014							
Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA AA	37	48.05	0.57	0.00	14.00	21.62	67.99	59.46	17.44	18.92	17.54	0.00	23.53	16.79	15.56
Mpls MSA AA	17	22.08	3.03	5.88	14.46	29.41	46.22	35.29	36.29	29.41	0.42	0.85	0.88	0.31	0.34
Phoenix MSA AA	1	1.30	3.61	0.00	20.72	0.00	35.76	100.00	39.91	0.00	0.02	0.00	0.00	0.06	0.00
<b>Limited Review:</b>															
Fargo MSA AA	22	28.57	0.74	0.00	10.46	18.18	59.92	63.64	28.88	18.18	4.03	0.00	6.78	4.61	2.23

\* Based on 2014 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

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

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

Geographic Distribution: HOME MORTGAGE REFINANCE			Geography: ALERUS 2014				Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014					Market Share (%) by Geography				
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies							
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Grand Forks MSA AA	59	11.90	0.57	0.00	14.00	13.56	67.99	50.85	17.44	35.59	7.91	0.00	7.84	6.24	13.04	
Mpls MSA AA	377	76.01	3.03	2.39	14.46	10.34	46.22	36.60	36.29	50.66	1.24	1.15	1.03	1.02	1.55	
Phoenix MSA AA	8	1.61	3.61	0.00	20.72	0.00	35.76	25.00	39.91	75.00	0.02	0.00	0.00	0.01	0.02	
<b>Limited Review:</b>																
Fargo MSA AA	52	10.48	0.74	0.00	10.46	7.69	59.92	61.54	28.88	30.77	2.86	0.00	2.56	3.14	2.55	

\* Based on 2014 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2010 Census information.

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

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

Geographic Distribution: MULTIFAMILY		Geography: ALERUS 2014				Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014					Market Share (%) by Geography*				
Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall	Low	Mod	Mid	Upp
	#	% of Total**	% of MF Units***	% BANK Loans****	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans					
<b>Full Review:</b>															
Grand Forks MSA AA	0	0.00	4.91	0.00	26.34	0.00	61.10	0.00	7.65	0.00	0.00	0.00	0.00	0.00	0.00
Mpls MSA AA	2	50.00	14.69	0.00	27.37	0.00	40.04	50.00	17.90	50.00	0.44	0.00	0.00	0.65	1.61
Phoenix MSA AA	0	0.00	15.31	0.00	37.05	0.00	28.83	0.00	18.81	0.00	0.00	0.00	0.00	0.00	0.00
<b>Limited Review:</b>															
Fargo MSA AA	2	50.00	9.27	0.00	22.37	50.00	51.14	50.00	17.22	0.00	1.92	0.00	4.17	2.04	0.00

\* Based on 2014 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Multi Family Units is the number of multi family units in a particular geography divided by the number of multifamily housing units in the area based on 2010 Census information.

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

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

Geographic Distribution: SMALL LOANS TO BUSINESSES												Geography: ALERUS 2014		Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014			
Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography						
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	Overall	Low	Mod	Mid	Upp		
<b>Full Review:</b>																	
Grand Forks MSA AA	142	18.88	2.66	4.23	16.19	21.13	67.31	51.41	13.84	23.24	7.00	19.35	8.80	6.08	9.97		
Mpls MSA AA	270	35.90	5.41	2.96	16.12	16.30	42.09	45.93	36.36	34.81	0.45	0.33	0.49	0.51	0.40		
Phoenix MSA AA	119	15.82	6.44	18.49	15.40	23.53	29.68	26.89	47.96	31.09	0.15	0.39	0.24	0.15	0.09		
<b>Limited Review:</b>																	
Fargo MSA AA	221	29.39	3.41	2.26	21.44	33.03	50.78	39.37	24.36	25.34	3.76	3.03	5.09	3.39	3.62		

\* Based on 2014 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (20).

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

Geographic Distribution: SMALL LOANS TO FARMS															Geography: ALERUS 2014		Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014	
Assessment Area:	Total Small Farm Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography							
	#	% of Total**	% of Farms*	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	Overall	Low	Mod	Mid	Upp			
<b>Full Review:</b>																		
Grand Forks MSA AA	49	68.06	0.24	0.00	3.18	2.04	87.88	85.71	8.69	12.24	8.38	0.00	5.56	8.05	17.14			
Mpls MSA AA	2	2.78	1.71	0.00	11.08	0.00	49.31	0.00	37.90	100.00	0.56	0.00	0.00	0.00	1.30			
Phoenix MSA AA	0	0.00	5.69	0.00	15.89	0.00	32.48	0.00	45.60	0.00	0.00	0.00	0.00	0.00	0.00			
<b>Limited Review:</b>																		
Fargo MSA AA	21	29.17	0.20	0.00	6.59	0.00	68.69	42.86	24.52	57.14	2.93	0.00	0.00	1.58	9.84			

\* Based on 2014 Peer Small Business Data -- US and PR

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (20).

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

Borrower Distribution: HOME PURCHASE		Geography: ALERUS 2014						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014							
Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share				
	#	% of Total**	% Families***	% BANK Loans***	% Families <sup>7</sup>	% BANK Loans**	% Families***	% BANK Loans****	% Families**	% BANK Loans**	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA AA	187	8.64	18.79	4.86	17.95	17.84	23.99	24.86	39.27	52.43	15.56	12.68	12.22	13.53	19.09
Mpls MSA AA	1,788	82.62	19.47	8.30	17.30	24.06	22.46	24.06	40.76	43.58	3.97	2.69	3.47	3.94	4.82
Phoenix MSA AA	7	0.32	20.93	0.00	17.44	0.00	20.15	14.29	41.48	85.71	0.01	0.00	0.00	0.01	0.02
<b>Limited Review:</b>															
Fargo MSA AA	182	8.41	18.23	3.89	17.75	16.11	24.65	31.11	39.37	48.89	4.50	2.08	3.06	4.63	5.82

\* Based on 2014 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 0.4% of loans originated and purchased by bank.

<sup>7</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

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

Borrower Distribution: HOME IMPROVEMENT		Geography: ALERUS 2014						Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014							
Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share				
	#	% of Total**	% Families***	% BANK Loans**	% Families <sup>8</sup>	% BANK Loans***	% Families***	% BANK Loans***	% Families***	% BANK Loans***	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Grand Forks MSA AA	37	48.05	18.79	6.06	17.95	30.30	23.99	24.24	39.27	39.39	16.75	14.29	18.87	16.00	16.25
Mpls MSA AA	17	22.08	19.47	29.41	17.30	17.65	22.46	11.76	40.76	41.18	0.46	1.45	0.36	0.22	0.44
Phoenix MSA AA	1	1.30	20.93	0.00	17.44	0.00	20.15	0.00	41.48	100.00	0.02	0.00	0.00	0.00	0.04
<b>Limited Review:</b>															
Fargo MSA AA	22	28.57	18.23	9.09	17.75	27.27	24.65	36.36	39.37	27.27	4.40	5.88	6.45	5.84	2.54

\* Based on 2014 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 5.2% of loans originated and purchased by bank.

<sup>8</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

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

Borrower Distribution: HOME MORTGAGE REFINANCE												Geography: ALERUS 2014		Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014				
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*							
	#	% of Total**	% Families***	% BANK Loans****	% Families <sup>9</sup>	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans*** *	Overall	Low	Mod	Mid	Upp			
<b>Full Review:</b>																		
Grand Forks MSA AA	59	11.90	18.79	10.17	17.95	15.25	23.99	16.95	39.27	57.63	9.44	10.53	6.52	6.33	12.50			
Mpls MSA AA	377	76.01	19.47	5.12	17.30	13.21	22.46	25.88	40.76	55.80	1.44	0.74	0.86	1.42	1.91			
Phoenix MSA AA	8	1.61	20.93	0.00	17.44	12.50	20.15	0.00	41.48	87.50	0.02	0.00	0.01	0.00	0.03			
<b>Limited Review:</b>																		
Fargo MSA AA	52	10.48	18.23	11.76	17.75	23.53	24.65	29.41	39.37	35.29	3.52	4.55	4.36	3.91	2.74			

\* Based on 2014 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 1.4% of loans originated and purchased by bank.

<sup>9</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

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

Borrower Distribution: SMALL LOANS TO BUSINESSES		Geography: ALERUS 2014			Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014				
Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share <sup>*</sup>	
	#	% of Total <sup>**</sup>	% of Businesses <sup>***</sup>	% BANK Loans <sup>****</sup>	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Grand Forks MSA AA	142	18.83	69.15	41.55	42.25	24.65	33.10	7.00	7.69
Mpls MSA AA	270	35.81	72.58	40.74	35.93	26.30	37.78	0.45	0.38
Phoenix MSA AA	121	16.05	72.42	26.45	31.40	28.10	40.50	0.15	0.09
<b>Limited Review:</b>									
Fargo MSA AA	221	29.31	70.32	47.96	47.51	25.79	26.70	3.76	4.24

\* Based on 2014 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 20).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 0.53% of small loans to businesses originated and purchased by the bank.

**Table 12. Borrower Distribution of Small Loans to Farms**

Borrower Distribution: SMALL LOANS TO FARMS				Geography: ALERUS 2014		Evaluation Period: JANUARY 1, 2014 TO DECEMBER 31, 2014			
Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share	
	#	% of Total**	% of Farms***	% BANK****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$500,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Grand Forks MSA AA	49	68.06	96.70	69.39	38.78	28.57	32.65	8.38	9.97
Mpls MSA AA	2	2.78	96.63	100.00	50.00	0.00	50.00	0.56	0.88
Phoenix MSA AA	0	0.00	94.44	0.00	0.00	0.00	0.00	0.00	0.00
<b>Limited Review:</b>									
Fargo MSA AA	21	29.17	97.06	57.14	42.86	42.86	14.29	2.93	3.07

\* Based on 2014 Peer Small Business Data -- US and PR

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B - 20).

\*\*\*\* Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 0.00% of small loans to farms originated and purchased by the bank.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS		Geography: ALERUS				Evaluation Period: JULY 1, 2012 TO SEPTEMBER 30, 2015			
Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Grand Forks MSA AA	0	0	48	473	48	473	10.51	0	0
Mpls MSA AA	0	0	73	1,886	73	1,886	41.92	0	0
Phoenix MSA AA	0	0	4	484	4	484	10.76	0	0
<b>Limited Review:</b>									
Fargo MSA AA	1	250	37	873	38	1,123	24.96	0	0
<b>Statewide</b>	3	532	1	5	4	533	11.85	0	0

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

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

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

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS Geography: ALERUS Evaluation Period: JANUARY 1, 2012 TO SEPTEMBER 30, 2015																	
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings						Population			
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Grand Forks MSA AA	100.0	5	33.33	0.00	40.00	60.00	0.00	0	0	0	0	0	0	5.87	14.67	66.08	13.38
Mpls MSA AA	100.0	4	26.67	0.00	0.00	75.00	25.00	1	0	0	0	+1	0	7.51	17.74	42.61	32.00
Phoenix MSA AA	100.0	1	6.67	0.00	0.00	0.00	100.0	0	1	0	-1	0	0	8.42	24.46	33.25	33.69
<b>Limited Review:</b>																	
Fargo MSA AA	100.0	5	33.33	0.00	0.00	60.00	40.00	0	0	0	0	0	0	4.72	13.45	54.12	27.70

