



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

PUBLIC DISCLOSURE

September 21, 1998

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Bremer Bank, National Association
Charter Number 23297
20 First Street Southwest
Minot, ND 58701**

**Supervisory Agency: Office of the Comptroller of the Currency
Minneapolis North Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

<p>Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.</p>

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GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

Assessment Area - The geographic area in which an institution's CRA performance is assessed. Generally, an urban assessment area will not extend beyond the boundaries of a metropolitan statistical area (MSA). A rural assessment area may contain one or more neighboring counties.

Block Numbering Area (BNA) - A small, statistical area within a nonmetropolitan county (also known as a "geography").

Community Development Loan - A loan with a **primary** purpose of community development. With one exception community development loans specifically exclude loans reported in Home Mortgage Disclosure Act (HMDA) or CRA Disclosure Statements (small loans to businesses and farms). Multi-family rental housing loans can be reported under HMDA and count as a community development loan.

Community Development Purpose - Affordable housing (including multifamily rental housing) for low and moderate income (LMI) individuals; community services targeted for LMI individuals; activities that promote economic development by financing businesses or farms that meet certain size and revenue standards prescribed by regulation; and, activities that vitalize or stabilize LMI geographies.

Community Development Service - A service, related to the provision of financial services, with a **primary** purpose of community development.

Income Levels - The regulation prescribes various income levels, relating to individuals, families and geographies: poverty level = less than 30% of the median; low income = less than 50% of the median; moderate income = at least 50%, but less than 80% of the median; middle income = at least 80%, but less than 120% of the median; and, upper income = 120% or more of the median.

Large Bank - A financial institution with total assets of \$250 million or more, or an institution of any size that is an affiliate of a bank holding company with banking and thrift assets of \$1 billion or more.

Median Family Income - The median family income is determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.

Qualified Investment - A lawful investment with a **primary** purpose of community development.

Small Business - A business with gross annual revenues of \$1 million or less.

Small Farm - A farm with gross annual revenues of \$1 million or less.

Small Loan to a Business or Farm - A loan of \$1 million or less to any business and a loan of \$500,000 or less to any farm.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Bremer Bank, National Association, Minot, North Dakota (BBNA)** prepared by the **Office of the Comptroller of the Currency (OCC)** as of **September 21, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated "**Satisfactory.**" Major factors contributing to the "Satisfactory" rating include:

- o a good responsiveness to small farm and small business credit needs;
- o a significant level of qualifying investments; and,
- o retail delivery systems that are reasonably accessible to all portions of the assessment area.

The following table indicates bank performance with respect to the lending, investment and service tests.

Bremer Bank, National Association CRA Performance Tests*			
Performance Levels	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory	X	X	
Low Satisfactory			X
Needs To Improve			
Substantial Noncompliance			

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

DESCRIPTION OF THE INSTITUTION

Bremer Bank, National Association (BBNA) is a \$400 million intrastate commercial bank headquartered in Minot, North Dakota. Branch facilities are available in the communities of Berthold, Carrington, Devils Lake, Glenfield, Kensal, Lansford, Max, Minnewaukan, Richardton, Rugby and Woodworth. BBNA offers seven automated teller machines (ATMs) in Minot, three in Devils Lake and one in Rugby.

BBNA offers a full-range of credit products and financial services. The bank's market niche is agricultural and commercial loans. As of December 31, 1998, BBNA's loan portfolio totaled \$224 million and represented 68% of bank deposits. By outstanding dollars, the loan portfolio consists of commercial (42%), agricultural (35%), residential (14%) and other loans (9%).

There are no financial, legal or other factors which impede the bank's ability to meet its CRA obligations. As of December 31, 1998, BBNA had net income of \$5 million and \$31.2 million of Tier 1 capital.

BBNA is owned by the Bremer Financial Corporation (BFC), a \$3 billion holding company headquartered in St. Paul, Minnesota. BFC has 14 national bank subsidiaries (with more than 85 banking locations) throughout Minnesota, North Dakota and Wisconsin. Non-bank affiliates include trust, insurance, management and operations service companies. BFC is owned by the Otto Bremer Foundation, a charitable trust. As a charitable trust, the Foundation must disperse at least 5% of its assets for charitable causes annually.

DESCRIPTION OF THE ASSESSMENT AREAS (AA)

BBNA has two noncontiguous, rural assessment areas. The first assessment area covers the north central region of North Dakota. It consists of eight whole counties (Benson, Eddy, Foster, McLean, Pierce, Ramsey, Renville, Ward) and portions of four others (Bottineau, McHenry, Rolette, Wells). The second assessment area is located approximately 100 miles southwest. It consists of Stark County and portions three others (Dunn, Hettinger, Morton). The assessment areas comply with regulatory requirements. They include all BBNA offices and deposit-taking ATM as well as a substantial majority of its loans. The areas do not arbitrarily exclude any low- or moderate-income areas. The assessment areas are combined for purposes of this analysis since both consist of nonmetropolitan geographies.

The bank's assessment area is primarily comprised of middle- and upper-income block numbering areas (BNAs). Forty-four of the 52 BNAs (or 85%) are middle- and upper-income. The eight remaining BNAs (15%) are moderate income.

Most families and households in the assessment area are middle- and upper-income (62%). More than 60% of both the 38,407 families and the 53,962 households are middle- or upper-income. The Department of Housing and Urban Development's 1998 statewide median family income estimate is \$35,800.

Most businesses and farms in the assessment area are small. Seventy-three percent of the businesses have gross annual revenues of \$1 million or less. And 96% of the farms have gross annual revenues of \$1 million or less.

The following table summarizes various demographic data for BBNA's assessment area, including BNAs and families by income level. It also shows the distribution of businesses and farms by BNA income level.

Assessment Area Profile					
DEMOGRAPHIC CHARACTERISTICS	#	Income Level			
		Low % of #	Moderate % of #	Middle % of #	Upper % of #
Block Numbering Areas (BNAs)	52	n/a	15%	65%	20%
Population by BNA Level	142,699	n/a	18%	57%	25%
Family By Income Level (12% below poverty)	38,407	19%	19%	24%	38%
Families By BNA Income Level	38,407	n/a	18%	58%	25%
Households By Income Level (16% below poverty)	53,962	23%	17%	19%	41%
Households By BNA Income Level	53,962	n/a	16%	59%	25%
Owner Occupied Housing By BNA Income Level	36,332	n/a	13%	62%	25%
Vacant Housing By BNA Income Level	9,922	n/a	15%	75%	10%
Businesses By BNA Income					
Revenues <= \$1 million: 3,252 (73%)	4,465	n/a	11%	62%	27%
Revenues > \$1 million: 369 (8%)					
Unreported Revenues: 844 (19%)					
Farms By BNA Income					
Revenues <= \$1 million: 298 (96%)	312	n/a	21%	63%	16%
Revenues > \$1 million: 3 (1%)					
Unreported Revenues: 11 (3%)					
Median Housing Value = \$38,647					
1990 Median Family Income = \$26,195					
HUD Adjusted Median Family Income for 1998 = \$35,800					

Data Source: U. S. Bureau of the Census (1990); Dun & Bradstreet (1996)

The economy is stable and fairly diversified. While the economy depends heavily on agriculture and related business diversification is provided by light manufacturing, government and service industries. Minot is a regional retail and service center. Unemployment rates typically run lower than national average.

Competition among financial institutions in the assessment area is strong. There are more than 36 competing financial institutions in the assessment area. BBNA has the largest deposit market share (14.6%) in the nine counties where it has branches, according to 1998 FDIC Deposit Summary Information. Institutions with the next highest market share are significantly larger institutions that serve much larger geographic areas - Norwest with 13.8% and US Bancorp with 10.5%. Other competitors have less than 10% market share each and primarily consist of small, independent community banks.

The most pressing credit needs include agricultural, small business and affordable home loans. Community contacts generally felt credit needs were being met. Contacts did express a need for affordable housing stock throughout the assessment area. Some communities have a housing shortage for persons of all income levels. Community contacts utilized during the examination include two housing authorities, two business organizations, one agricultural organization and four local government contacts. All contacts were conducted within the previous two years.

EXAMINATION SCOPE

We examined BBNA using the Lending, Investment and Service Tests for large banks pursuant to the revised CRA regulations. These tests were used to assess the bank's record of helping to meet community credit needs. We analyzed BBNA's small business, small farm and community development lending; the number and types of qualified investments; branch distribution and accessibility; and retail and community development services to arrive at our rating.

The current evaluation covers lending, investment and service activities since the previous CRA evaluation dated June 3, 1996 with the following exceptions/notations:

- o Our analysis of farm and business lending included all 1996 and 1997 reported originations. Data is reported and aggregated in whole years. At the time of the evaluation, 1998 information was not yet available for the bank or market in aggregate.
- o BBNA's 1996 and 1997 business loan origination numbers were adjusted to omit individual extensions under line of credit. We also adjusted the aggregate business loan data released by the Federal Financial Institutions Examination Council (FFIEC) for this reporting error.
- o We did not include residential loans in this evaluation. Residential loans are not a primary product line for the bank. In addition, BBNA is not a HMDA reporter. In 1996 and 1997, the bank's residential loan originations totaled 326 - a small number compared to the 1,020 business loans and 3,337 farm loans reported by the bank over the same period. On a percentage basis, residential loans accounted for less than 7% of the originations considered during this evaluation period.
- o In the lending test, we gave the most weight to agricultural loans. The number of reported agricultural loan originations was more than three times the number of reported business originations. The dollar volume of reported farm loans was one and a half times the dollar volume of reported business loans.
- o Lending data, except market comparisons, is consolidated for presentation. There were no material differences in bank performance between 1996 and 1997.
- o At the bank's request, we considered qualified investments made by the affiliated Otto Bremer Foundation in addition to the bank's own qualified investments.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

BBNA demonstrated good responsiveness to agricultural and business credit needs, both of which are identified credit needs in the assessment area. Specifically, we noted:

- o a good volume of loans to farms and businesses. BBNA has a strong market share in both products.
- o a substantial majority of bank loans were inside the assessment area.
- o essentially all reported farm loans were to small farms and a substantial majority of reported business loans were to small businesses. This level of performance is consistent with market demographics and is better than other reporting banks in aggregate.
- o a substantial majority of bank loans were in amounts less than \$50,000.

Lending Activity

BBNA originated 3,337 reportable farm loans totaling \$124 million in 1996 and 1997. A high percentage of these loans were inside the assessment area - 2,890 loans totaling \$105 million. The percentage of loans inside the assessment area was 87% by number and 85% by dollar volume. Of all reporting institutions, BBNA originated the most farm loans in the assessment area in 1996 and 1997.

BBNA originated 1,020 reportable business loans totaling \$81 million in 1996 and 1997. A high percentage of these loans were inside the assessment area - 944 loans totaling \$75 million. The percentage of loans inside the assessment area was 93% by number and 88% by dollar volume. Of all reporting institutions, BBNA originated the most business loans in the assessment area in 1997 and ranked second in 1996.

The following table details farm and business originations considered in this evaluation.

<i>Percentage of Loans Made Inside the Assessment Area</i>								
Location	1996 and 1997 Farm Loan Originations				1996 and 1997 Business Loan Originations			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Loans Inside AA	2,890	87%	105,452	85%	944	93%	75,384	88%
Loans Outside AA	447	13%	18,446	15%	76	7%	5,315	12%
Total	3,337	100%	123,898	100%	1,020	100%	80,699	100%

Data Source: Bank CRA Disclosure Statement

Geographic Distribution

The geographic distribution of bank loans reflects adequate penetration throughout the assessment area. There are no unexplained gaps in lending. The percentage of bank farm loans in moderate-income tracts (9%) is substantially low than the percentage of farms located in such areas (21%). This is primarily attributable to the bank’s poor proximity to these tracts and competitive factors. Three of the eight moderate-income tracts in the assessment area are located in counties where the bank has no branches (McHenry, Wells, Morton). Two moderate-income tracts are in counties that the bank has less than a 3% deposit market share. One moderate-income tract is an air force base which contains none of the area’s farms and less than 1% of the businesses. The percentage of business loans in moderate-income tracts (9%) is somewhat lower than, but more closely parallels, the percentage of businesses in such areas (11%).

The following table details the geographic distribution of bank loans in the assessment area:

Geographic Distribution of Loans Inside the Assessment Area										
BNA Income Designation	% of Farms	Farm Loans				% of Businesses	Business Loans			
		#	%	\$(000s)	%		#	%	\$(000s)	%
Moderate-Income	21%	270	9%	12,857	12%	11%	82	9%	4,100	6%
Middle-Income	63%	2,375	82%	81,646	78%	62%	697	74%	59,875	79%
Upper-Income	16%	245	9%	10,949	10%	27%	165	17%	11,409	15%
Total	100%	2,890	100%	105,452	100%	100%	944	100%	75,384	100%

Data Source: Bank CRA Disclosure Statement, US Bureau of the Census (1990)

Revenue Size Distribution

Essentially all (2,874 or 99%) of BBNA’s reported farm loans in the assessment area were originated to small farms. Bank performance is consistent with market demographics. Ninety-six percent of the 312 farms in the assessment area reported annual revenues of \$1 million or less, 1% reported annual revenues exceeding that amount and 3% did not report annual revenues.

A substantial majority (800 or 85%) of BBNA’s reported business loans in the assessment area were to small businesses. Bank performance is slightly better than market demographics. Of the 4,465 businesses in the assessment area, 73% reported annual revenues of \$1 million or less, 8% reported annual revenues exceeding that amount and 19% did not report annual revenues.

The following table details the revenue size distribution of bank loans in the assessment area.

<i>Revenue Size Distribution of Loans Inside the Assessment Area</i>										
Farm/Business Revenue Size	% of Farms	Farm Loans				% of Businesses	Business Loans			
		#	%	\$(000s)	%		#	%	\$(000s)	%
Small Business	96%	2,874	99%	104,222	99%	73%	800	85%	47,123	63%
Large Business	1%	15	<1%	1,189	1%	8%	144	15%	28,261	37%
Unknown	3%	1	<1%	41	<1%	19%	0	n/a	0	n/a
Total	100%	2,890	100%	105,452	100%	100%	944	100%	75,384	100%

Data Source: Bank CRA Disclosure Statement, US Bureau of the Census (1990)

Of all banks subject to CRA data reporting, BBNA originated the most small farm loans in the 16 counties included its assessment area. The bank originated 1,508 or 58% of the 2,584 reported loans to small farms in 1997. The bank made 1,438 or 53% of the 2,701 reported loans to small farms in 1996. In both years, 99% of the bank's farm loans were to small farms. For other reporting banks, this ratio was 97% in 1997 and 95% in 1996.

Of all banks subject to CRA data reporting, BBNA originated a high percentage of the small business loans in the 16 counties included in its assessment area. The bank made 480 or 43% of the 1,109 reported loans to small businesses in 1997. The bank made 338 or 29% of the 1,150 reported loans to small businesses in 1996. The bank's percentage of loans to small businesses was 85% in 1997 and 83% in 1996. For other reporting banks, this ratio was 56% in 1997 and 64% in 1996.

BBNA's willingness to make loans to small farms and businesses further evidenced by an excellent loan size distribution. Of the bank's loans to small farms, 80% were in amounts of \$50,000 or less and 36% had origination amounts of \$10,000 or less. Of the bank's loans to small businesses, 74% were in amounts of \$50,000 or less and 30% had origination amounts of \$10,000 or less. The table on the next page further details the loan size distribution of small farm and business loans.

<i>Loan Size Distribution of Small Farm & Business Loans Inside the Assessment Area</i>								
Loan Amount	Farm Loans				Business Loans			
	#	%	\$(000s)	%	#	%	\$(000s)	%
\$0 to \$10,000	1,042	36%	5,697	6%	236	30%	1,340	3%
\$10,001 to \$25,000	705	25%	12,501	12%	192	24%	3,441	7%
\$25,001 to \$50,000	553	19%	21,303	20%	161	20%	6,241	13%
\$50,001 to \$100,000	355	12%	26,473	25%	123	15%	9,635	21%
\$100,001 to \$250,000	201	7%	31,964	31%	60	8%	10,918	23%
\$250,001 to \$500,000	18	1%	6,284	6%	15	2%	5,222	11%
\$500,000 to \$1,000,000	0	n/a	0	n/a	13	1%	10,326	22%
Total	2,874	100%	104,222	100%	800	100%	47,123	100%

Data Source: Bank Records

Community Development Lending

BBNA made one community development loan during the evaluation period. In essence, the bank provided a \$35,000 letter of credit to a nonprofit affordable housing organization. The organization entered into an Affordable Housing Agreement with the Federal Home Loan Bank (FHLB) to receive grant monies for remodeling a seven unit low-income housing project. In order to receive the grant, the organization had to partner with a bank. BBNA executed a note with the organization in the same amount as the grant. The bank must monitor the organization's compliance with the agreement. If the organization fails to comply, FHLB may require the grant monies to be repaid. BBNA would then be responsible for collecting the funds. This development project helps address the need for affordable housing in the assessment area.

INVESTMENT TEST

BBNA and its affiliate, the Otto Bremer Foundation (OBF), have made a significant level of qualified investments during the evaluation period. Opportunities for traditional investments that support community development are limited given the rural nature of the bank's assessment area. Most of BBNA's investments were in the form of traditional grants and donations made by the foundation. OBF made 32 qualifying grants and donations totaling \$922,652. The majority of these monies went to organizations that provide social services to low- and moderate-income individuals and organizations that facilitate small business development.

BBNA has directly invested \$200,000 in the North Dakota Small Business Investment Company. Most of this investment (\$150,000) was purchased prior to the evaluation period, but remains outstanding. The North Dakota Small Business Investment Company is a limited partnership that makes venture capital investments in manufacturing service and retail businesses with the potential for substantial growth and long term equity appreciation. The company serves the entire state of North Dakota.

Total qualified investments of \$1.1 million represent 3.6% of the bank's Tier 1 capital as of December 31, 1998.

SERVICE TEST

Retail Banking Services

BBNA's banking facilities are reasonably accessible geographies and individuals of different income levels in its AA. The bank has a main office and fifteen branches. The main office and eight branches are full service facilities. Seven locations are primarily depository branches - three that are close to full service Minot offices (Berthold, Lansford, Max), three that are close to the full service Carrington office (Glenfield, Kensal and Woodworth) and one that is close to full-service Devils Lake offices (Minnewaukan).

The bank also offers eleven ATMs in the assessment area. Two ATMs provide cash dispensing and deposit services one at the main office in Minot and one at a Devils Lake grocery store. The other ATMs only dispense cash. They are located in retail stores and service facilities - six in Minot, two in Devils Lake and one in Rugby.

The distribution of branches is reasonable as illustrated in the following table. The percentage of branches by BNA income level is consistent with the population distribution. BBNA merged with an affiliate bank in Devils Lake in November 1997. One of the affiliate's branches (in a moderate-income geography) was left open and one branch (in an upper-income geography) was closed. This branch closing did not adversely affect the bank's accessibility in Devils Lake.

<i>Distribution of BBNA Branches and Full-Service ATMs</i>							
BNA Income Level	Full Service Branches		Depository Branches		Full Service ATMs		Percent of Population by BNA Income Level
	#	%	#	%	#	%	
Moderate-Income	2	22%	1	14%	1	50%	18%
Middle-Income	4	45%	5	72%	0	n/a	57%
Upper-Income	3	33%	1	14%	1	50%	25%
Total	9	100%	7	100%	2	100%	100%

Banking hours are reasonable and tailored to community needs. Seven offices (including all three facilities in moderate income tracts) provide extended drive-up hours for early morning, after work and Saturday banking. The three full-service branches in upper-income geographies offer Saturday lobby hours. This difference in lobby hours is based on the locations' proximity to high volume retail centers - specifically, a grocery store and a retail shopping mall.

There are few differences in products and services between BBNA offices. All branches offer the same deposit products with no material differences in fees. The full-service locations offer basically the same loan products. For depository branch customers, loans are available by appointment or at a nearby full-service branches.

Community Development Services

BBNA provides an adequate level of community development services. Over the evaluation period, the bank provided qualifying services to 12 organizations. Services primarily consist of providing technical expertise and serving on Boards of Directors of organizations that address affordable housing needs and small business development.

FAIR LENDING REVIEW

Examiners did not identify any instances of illegal discrimination or discouragement during the concurrent fair lending review. The review compared loan terms and conditions, using gender as the prohibited basis, on conventional home purchase loans between January 1, 1997 and August 31, 1998.