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Comptroller of the Currency  
Administrator of National Banks

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## PUBLIC DISCLOSURE

December 31, 1997

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BNC National Bank  
Charter No. 22352

322 East Main Avenue  
Bismarck, ND 58501

Office of the Comptroller of the Currency  
Fargo Field Office  
3211 Fiechtner Drive SW  
Fargo, ND

**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.

## 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 Community Reinvestment Act (CRA) performance of **BNC National Bank** prepared by the **Office of The Comptroller of the Currency**, the institution's supervisory agency, as of December 31, 1997. 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**.

BNC National Bank is meeting the credit needs of its assessment areas. The bank's loan-to-deposit ratio and trend is more than reasonable, with the majority of loans being made within its assessment areas. Lending efforts penetrate all segments of the assessment areas and are dispersed to borrowers of all income levels. The bank actively lends to businesses and farms of smaller size.

## **GLOSSARY OF TERMS AND COMMON ABBREVIATIONS**

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

**Metropolitan Statistical Area (MSA)** - Area consisting of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Census Tract (CT)** - Small, locally defined statistical areas within a MSA. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

**Median Family Income** - The median income determined by the United States Census Bureau. This amount is based on estimates developed by the Department of Housing and Urban Development and is updated annually.

**Low- and Moderate-Income** - Income levels which are less than 80% of the median family income.

**Community Reinvestment Act (CRA)** - The statute that requires federal regulators to evaluate a financial institution's lending performance in light of the credit needs in the institution's local community. The regulators must also evaluate whether the institution's defined community is reasonable. (This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2901, as amended and 12 C.F.R. 25, as amended.)

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their lending activity. The reports include such data as the race, gender, and the income of applicant(s), the amount of loan requested and its disposition (e.g. made, turned down, withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and home improvement loans, conventional home purchase and home improvement loans, refinancing of home purchase and home improvement loans and loans for the purchase of multi-family (5 or more units) dwellings. (This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2801, as amended and 12 C.F.R. 203, as amended.)

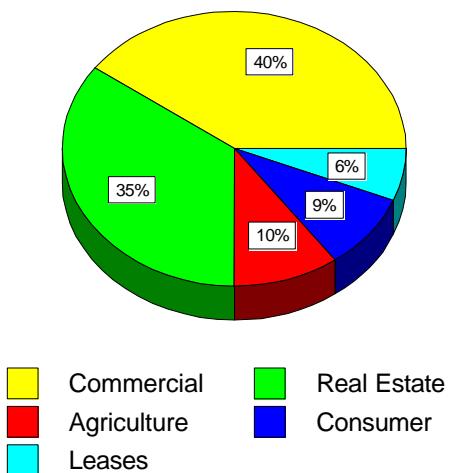
The following table indicates the performance level of **BNC National Bank** with respect to each of the five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b>BNC NATIONAL BANK PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan to Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

## DESCRIPTION OF INSTITUTION

BNC National Bank (BNC) is a wholly owed subsidiary of BNCCORP, Inc. (BNCC), a multi-bank holding company headquartered in Bismarck, North Dakota. BNCC's subsidiary companies provide banking, and other financial services in North Dakota and Minnesota. The bank has a total of 9 banking offices in North Dakota; two in Bismarck, and one each in Linton, Crosby, Ellendale, Garrison, Kenmare, Stanley, and Watford City. The bank also owns five automated teller machines (ATMs), three of which are located in Bismarck, one in Mandan, and one in the Dakota Magic Casino, located near Hankinson, North Dakota.

## Portfolio Composition



As of September 30, 1997, BNC reported total assets of \$273 million and a 0.38% return on average assets. The bank's loan-to-deposit ratio on that date was 78%; gross loans represented 63% of total assets. The loan portfolio consisted of the following types of credit: 40% in commercial loans, 35% in real estate (17% nonfarm nonresidential, 7% 1-4 family residential, 6% construction, 3% farmland, and 2% multifamily), 10% in agricultural loans, 9% in consumer loans, and 6% in leases.

BNC offers a full range of

commercial, agricultural, real estate, and consumer loans, in addition to deposit, trust, insurance, and nondeposit investment services. There are no impediments which would hamper BNC's ability to help meet the credit needs of its local communities.

## DESCRIPTION OF ASSESSMENT AREAS

The bank's assessment areas (AAs) consist of eight distinct markets covering all or portions of eleven North Dakota counties. They have a combined population of 121,000. These markets enjoy stable economies with low unemployment. Agriculture, and its related industries, dominates the economies. The Bismarck/Mandan market is further strengthened by the presence of several colleges/universities, hospitals, retail, service and manufacturing businesses, government, and other financial service companies.

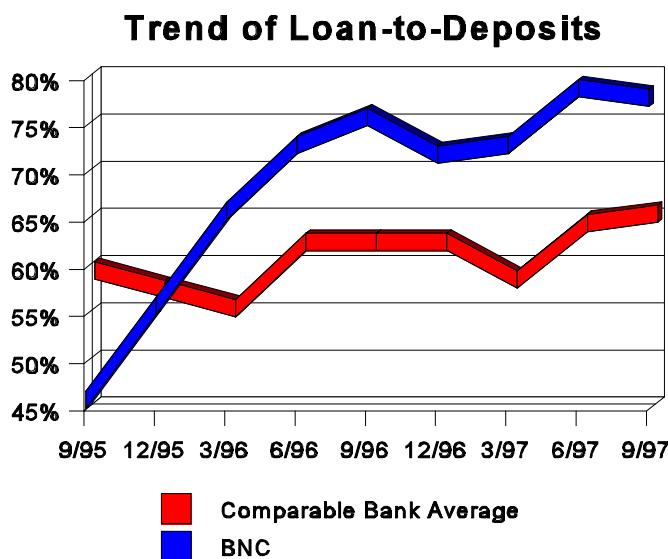
Our Evaluation categorizes two AAs which are used in our evaluation of BNC's CRA performance. These AAs include the Bismarck/Mandan Metropolitan Statistical Area (MSA), which includes the Bismarck branches, and the NonMSA markets, which includes the remaining branches.

The Bismarck/Mandan AA includes the entire MSA. This MSA is made up of Burleigh County and Morton County in North Dakota. The Bismarck/Mandan AA has 20 census tracts (CTs). Five (25%) are moderate-income; 13 (65%) are middle-income; and two (10%) are high-income. There are no low-income CTs. The AA includes CTs 0101.00 through 0115.00 in Burleigh County and 0201.00 through 0205.00 in Morton County. The AA has a population of about 83,831 persons and approximately 22,435 families. Minorities represent only 3% of the population. The family breakdown by income level is: 18% low-income; 20% moderate-income; 24% middle-income; and, 38% upper-income. The 1997 Median Family Income for the MSA is \$43,400.

The NonMSA AA is made up of portions of Emmons, Mackenzie, Divide, McLean, Dickey, Mountrail, Burke, Renville and Ward Counties in North Dakota. The branches located in this AA are Linton, Watford City, Crosby, Garrison, Ellendale, Stanley, and Kenmare. The AA includes 22 block numbering areas (BNAs). One (4.5%) is low-income; three (14%) are moderate-income; 17 (77%) are middle-income; and one (4.5%) is upper-income. The AA has a population of about 36,966 and approximately 10,246 families. The 1997 NonMSA Median Family Income for North Dakota is \$34,000.

Community contacts indicated most local credit needs are being satisfactorily met by financial institutions throughout BNC's AAs. We conducted or reviewed twelve community contacts within the bank's AAs. These contacts included community economic development organizations, state and federal government business and housing agencies, and other business development groups. Small business start-up loans, agricultural operating and working capital loans, and affordable housing credit were all mentioned as types of credit needs which banks should continue to strive to meet.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:



### Loan-to-Deposit Analysis

BNC's level of lending is more than reasonable. The bank's loan-to-deposit ratio trend has increased consistently since the last CRA examination. During the past nine quarters ending September 30, 1997, the loan-to-deposit ratio has risen from 46% to 78%, demonstrating a willingness to meet credit needs within its AAs. The bank's average loan-to-deposit ratio for this same period is 69%. This compares favorably to the average loan-to-

deposit ratio of 61% for 15 other comparable banks within BNC's AAs. Of these 16 banks, BNC has the fifth highest loan-to-deposit ratio.

### Comparison of Credit Extended Inside and Outside of the Assessment Areas

BNC extends a majority of its loans within the AAs. We used internal reports generated by the bank to analyze the extent of lending inside and outside of the AAs. We reviewed the bank's internal reports and determined that they were accurate. The report shows that since September 30, 1995, BNC made 73% of the number of all originations within its AAs.

Loans Originated from 9/30/95 to 11/25/97	# of Loans	% of Loans
In the Assessment Area <sup>1</sup>	2,565	73%
Out of the Assessment Area	959	27%

<sup>1</sup> Total # of loans in Bismarck/Mandan AA = 1,575, total # of loans in NonMSA AA = 990

### ***Distribution of Credit within the Assessment Areas by Geography***

The geographic distribution of loans reflects reasonable dispersion throughout the AAs. To draw our conclusion, we considered loan originations since September 30, 1995. BNC originated 12% of its loans within its moderate-income CTs. Moderate-income BNAs comprise 25% of the total CTs for the Bismarck/Mandan AA. While BNC's percentage of originations appears low in moderate-income CTs, the majority of these CTs are located outside the Bismarck/Mandan metropolitan area in which BNC does not have readily accessible branches. There are no low-income CTs in the AA.

BNC also originated 33% of its loans in low- and moderate-income BNAs in its NonMSA AA. Low- and moderate-income BNAs comprise 18% of the total BNAs for the NonMSA AA. The following table recaps the distribution of loans by income within BNC's AA:

Distribution of Loan Originations within BNC's AAs By CT and BNA Geographies						
CT or BNA Type	Bismarck/Mandan AA			NonMSA AA		
	# of Loans	% of Loans	% of CT's	# of Loans	% of Loans	% of BNA's
Low Income	N/A	N/A	N/A	6	1%	4%
Moderate Income	184	12%	25%	321	32%	14%
Middle Income	1,005	65%	65%	632	64%	77%
Upper Income	355	23%	10%	31	3%	5%
Total	1,544	100%	100%	990	100%	100%

### ***Distribution of Credit within the Assessment Areas by Borrower Income***

The distribution of borrowers reflects a good penetration among businesses and farms of different sizes and a reasonable penetration among individuals of different income levels. Our conclusions are based on a sample of 100 outstanding commercial and agricultural loans and the bank's HMDA reports for 1996 and 1997.

The income distribution for small business loans and agricultural loans shows good penetration in the Bismarck/Mandan AA and excellent penetration in the NonMSA AA. We sampled agricultural and commercial loans (60 in the Bismarck/Mandan AA and 40 in the NonMSA AA) to determine the gross income levels of the farms and small businesses. The table below shows that 66% of the commercial and agricultural loans in the Bismarck/Mandan AA had gross income of less than \$1 million. Additionally, 98% of the commercial and agricultural loans in the NonMSA AA had gross income of less than \$1 million. The CRA defines small businesses and small farms as those with annual revenues of \$1 million or less.

Distribution of Agricultural and Commercial Credits within the AAs By Different Gross Income Levels						
Gross Income	<\$100,000	\$100,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	>\$1,000,000	Total
<b>Bismarck/Mandan AA</b>						
# of Loans	10	12	8	10	20	60
% of Loans	17%	20%	13%	17%	33%	100%
<b>NonMSA AA</b>						
# of Loans	23	11	2	3	1	40
% of Loans	57%	28%	5%	8%	2%	100%

The distribution of HMDA loan originations is reasonable although below the demographic distribution of the low- and moderate-income population. BNC is not a predominant originator of HMDA loans in its AAs. These credit needs are, however, being reasonably met by other financial institutions within the bank's AAs. As shown in the following tables, BNC originated 26% of its HMDA loans to low- and moderate-income borrowers within the Bismarck/Mandan AA in 1996 and 32% in 1997. This reasonably compares to the 1997 demographic data for the AA which shows a low- and moderate-income family population base of 38%. BNC also originated 24% of its HMDA loans to low- and moderate-income borrowers within the NonMSA AA in 1996 and 9% in 1997. This compares to the 1997 demographic data for the AA which shows an average low- and moderate-income family population base of 41%.

<b>Distribution of BNC HMDA Loan Originations by Income Level Bismarck/Mandan AA</b>					
Loan Originations	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families	Total
1996 #	19	8	5	73	105
1996 %	18%	8%	5%	69%	100%
1997 #	3	18	9	35	65
1997 %	5%	27%	14%	54%	100%
1997 MSA Demographic Data	18%	20%	24%	38%	100%

<b>Distribution of BNC HMDA Loan Originations by Income Level NonMSA AA</b>					
Loan Originations	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families	Total
1996 #	4	5	15	15	39
1996 %	11%	13%	38%	38%	100%
1997 #	2	1	17	13	33
1997 %	6%	3%	52%	39%	100%
1997 AA Demographic Data Average	22%	19%	24%	35%	100%

### ***Response to Complaints***

The bank received no CRA-related complaints since the previous CRA examination.

### ***Compliance with Antidiscrimination Laws and Regulations***

We did not find any violations of the substantive provisions of the antidiscrimination laws (Home Mortgage Disclosure, Equal Credit Opportunity and Fair Housing Acts) and their implementing regulations.