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Comptroller of the Currency  
Administrator of National Banks

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**PUBLIC DISCLOSURE**

**February 20, 1998**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**First American Bank, N.A.  
Charter Number 2567  
201 North Broadway  
Crookston, MN 56716**

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

**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.**

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## GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

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

**Assessment Area (AA)** - The geographic area which an institution selects as the community within which its regulator will assess the institution's record of CRA performance. Generally, an urban assessment area will not extend beyond the boundaries of a MSA. A rural assessment area may contain one or more neighboring counties.

**Census Tract (CT)** - Small, locally defined statistical areas within a MSA. These areas are determined by the U. S. Census Bureau in an attempt to group homogeneous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

**Community development loan** - A loan which must have as its *primary* purpose community development.

**Community development purpose** is defined as affordable housing (including multifamily rental housing) for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development by financing businesses or farms that meet size and revenue standards defined by the CRA regulation; and, activities that vitalize or stabilize low- and moderate-income geographies. Community development loans specifically exclude loans which have been reported under the Home Mortgage Disclosure Act or as small loans to businesses or farms, except for multi-family rental housing loans, which can be reported under both categories.

**Community development service** - A service that must have community development as its *primary* purpose and is related to the provisions of financial services.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in MSAs to file annual summary reports of their lending activity. The reports include such data as the race, gender, and the income of the 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 loans, 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.)*

**Income Levels** - These relate to individuals, families or the CTS in a MSA.

**Low** = An income level that is less than 50% of the median income.

**Moderate** = An income level that is at least 50% and less than 80% of the median income.

**LMI** = An income level that is less than 80% of the median income.

**Middle** = An income level that is at least 80% and less than 120% of the median income.

**Upper** = An income level that is 120% or more of the median income.

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

**Metropolitan Statistical Area (MSA)** - An area containing a city with a population of at least 50,000 or an urbanized area with a population of at least 50,000 and a total metropolitan population of at least 100,000. Generally, MSAs consist of one or more whole counties that have a high degree of interaction.

**Qualified investment** - A lawful investment that has as its *primary* purpose community development.

**Small Business or Small Farm** - A business or farm that has \$1,000,000 or less in gross annual revenues.

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

## 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 **First American Bank, N.A. (FAB)**, prepared by the **Office of the Comptroller of the Currency (OCC)** as of **February 20, 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.

### Scope of Examination

The OCC examined First American Bank, N.A. using the Lending, Investment and Service Tests for large banks pursuant to the revised CRA Regulation. These tests assess the bank's record of helping to meet community credit needs. We analyzed the bank's: mortgage, small business, small farm and community development loans; the number and types of qualified investments; branch distribution and accessibility; and, retail and community development services. Because consumer loans represent a significant portion of the bank's loan portfolio, we also reviewed a sample of installment loans.

**Institution's CRA Rating:** This institution is rated "**Satisfactory Record of Meeting Community Credit Needs.**"

We rated First American Bank "Satisfactory" because:

FAB showed good responsiveness to the credit needs of commercial borrowers, especially agricultural customers.

- In 1996, the bank originated 87% of its loans to small farms and 71% of loans to small businesses within the AA.
- In 1996, the bank originated 98% of its agricultural loans to small farms, which are farms with gross annual revenues less than \$1,000,000.
- In 1996, the bank originated 83% of its commercial loans to small businesses, which are businesses with gross annual revenues less than \$1,000,000. Ninety-eight percent of the business loans originated were less than \$100,000 in size.

FAB showed positive responsiveness to the credit needs of home buyers and homeowners.

- In 1996, the bank originated 84% of all its HMDA-related loans within the AA. This is a positive increase from the 67% originated within the AA during 1995.

- In 1995 and 1996, the bank significantly exceeded the overall market share to low- and moderate-income home buyers using a governmentally insured or subsidized loan product.
- In 1995 and 1996, the bank generally exceeded the level of performance of all other lenders within the AA for most housing related loans among low-income borrowers.

FAB has a good record of providing services, including community development services.

- Banking offices are reasonably accessible to all residents with convenient hours and services that are commensurate with the needs of the local communities.
- FAB personnel facilitated many financing packages that made affordable housing construction possible.

FAB has a positive record of investing in the community, primarily because of the large volume of donations and grants made to organizations that benefit low- and moderate-income individuals.

The following table indicates the performance level of First American Bank with respect to the lending, investment and service tests.

<b>Performance Levels</b>			
<b>First American Bank in Crookston</b>			
<b>Performance Tests</b>			
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	<b>X</b>	<b>X</b>	<b>X</b>
Low Satisfactory			
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.

First American Bank’s prior Performance Evaluation was dated July 25, 1994, and the rating was “Satisfactory Record of Meeting Community Credit Needs.” The current evaluation covers the period from January 1995 through September 1997.

## **DESCRIPTION OF THE INSTITUTION**

First American Bank, National Association (FAB) in Crookston is one of 14 banks that are wholly owned subsidiaries of Bremer Financial Corporation (BFC). FAB offers a full range of agricultural, real estate, consumer, and commercial credit products. Bank management's primary focus is to provide a broad range of financial services and products to the local community. The BFC Mission Statement says that the bank will provide quality products and services that meet the needs of the customer while contributing to the economic and social environment of the local community. FAB has three branches in addition to the main office located in Crookston. There is one branch each in the rural communities of Fisher, Warren, and Shelley. Drive-up facilities are available at the main office, Fisher office, and Warren office. The bank also owns four automated teller machines (ATMs), which are located at the main and the Warren offices, at a Crookston supermarket, and at a Crookston gas station/convenience store.

There are no impediments which would hamper FAB's ability to help meet the credit needs of its assessment area. As of June 30, 1997, FAB had \$230,313,000 in total assets. The bank's loan-to-deposit ratio on that date was 99%; gross loans represented 72% of total assets. The loan portfolio consisted of the following types of credit: 15% in mortgage loans on one- to four-family residential real estate; 13% in other real estate loans on farms, multi-family and commercial real estate; 36% in agricultural loans; 26% in consumer loans; 9% in commercial loans; and 1% in all other loans. For calendar year 1996, FAB had net income of \$1,419,000 and a return on average assets of 1.23%

BFC is a multi-state, regional holding company headquartered in Saint Paul, Minnesota with total assets of \$2.9 billion. It has more than 80 banking locations throughout Minnesota, North Dakota, and Wisconsin. BFC is, in turn, owned by the Otto Bremer Foundation, a charitable trust. Other non-bank affiliates include a trust company, two insurance companies, a management and support service company, an investment company, an insurance premium finance corporation, an asset based lending and leasing service company, an operations and support service company, and a life insurance company.

## DESCRIPTION OF THE ASSESSMENT AREA

FAB's assessment area (AA) consists of Polk County (which is located in the Grand Forks, North Dakota-Minnesota metropolitan statistical area), and small portions of Marshall and Norman Counties. The AA has a population of 40,674. The median family income from the 1990 census for the MSA portion of the AA was \$29,793. The estimated 1997 median family income for the MSA portion is \$38,800. The median family income from the 1990 census for the non-MSA portion of the AA was \$28,933. The estimated 1997 median family income for the non-MSA portion is \$38,400. A table showing the distribution of census tracts and number of families within each of the census tracts follows.

INCOME LEVEL BY CENSUS TRACT	# of census tracts	% of census tracts	# of families	% of families
Low-income	0	0	0	0
Moderate-income	2	15%	1,979	18.31%
Middle-income	10	77%	8,227	76.12%
Upper-income	1	8%	602	5.57%
<b>TOTALS</b>	<b>13</b>	<b>100%</b>	<b>10,808</b>	<b>100%</b>

A breakout of families by income category living within the AA, regardless of location, follows. We also adjusted the low-income category to reflect the number of families living below the poverty level. We adjusted this figure because these families generally do not qualify for bankable loans.

INCOME LEVEL BY FAMILY	# of families	% of families	# of families below poverty level	adjusted # of families	adjusted % of families
Low-income	2,122	20%	1,099	1,023	11%
Moderate-income	2,168	20%		2,168	22%
Middle-income	2,733	25%		2,733	28%
Upper-income	3,783	35%		3,783	39%
Unknown	2	0%		2	0%
<b>TOTALS</b>	<b>10,808</b>	<b>100%</b>		<b>9,709</b>	<b>100%</b>

Marshall and Norman Counties are adjacent to Polk County, to the north and the south, respectively. No tracts were arbitrarily excluded from the bank's AA. The AA is based on FAB's office locations and on lending activity. The upper-income census tract is located in the city of East Grand Forks which is on the farthest western edge of the AA. The two moderate-income tracts are located in Polk County on the farthest eastern edge of the AA. The Warren office is located along the southern edge of Marshall County. The Shelly office is

located in northwestern Norman County near the North Dakota border. The Fisher and main Crookston offices are located in the western half of Polk County.

Agriculture and agriculture-related businesses dominate the local economy. Historically, agricultural loans and farm real estate loans average 45% of the bank's total loan portfolio. The bank has been one of the largest agricultural banks in Minnesota (information based on total dollars of agricultural loans outstanding as found in call report numbers from Minnesota banks and *Agri Finance* magazine). As of September 30, 1997, FAB was the fourth largest behind the Minnesota offices of U.S. Bancorp, Norwest, and Community First National Bank.

The area has had abnormal crop seasons since 1988 due to drought, excessive rains, or crop disease. The spring flood of 1997 also had a negative impact on the local economy because some small businesses closed and some residents permanently left the area while thousands of evacuees from flood stricken areas sought temporary housing. The area has since stabilized and unemployment is, once again, considered low at approximately 3%. Our community contacts, however, characterized the employment opportunities as somewhat weak. Most available jobs pay only minimum wage. Our contacts also said that a lack of available housing also has had a detrimental impact on attracting new businesses or with expansion of existing industries.

Other major employers in the area are the local school district and branch of the University of Minnesota, the hospital, and a large regionally-based sugar beet processing facility. Eighty-three percent of those businesses reporting within the AA have less than ten employees.

The following tables show the distribution of businesses and farms by sales volume and the income level of the census tract in which they are located.

# (%) of Census Tracts	INCOME LEVEL BY CENSUS TRACT	Businesses - less than \$1 million in sales # & (%)	Businesses - more than \$1 million in sales # & (%)	Businesses - sales not reported # & (%)	Total Businesses # (%)
0 (0%)	Low-income	0 (0%)	0 (0%)	0 (0%)	0 (0%)
2 (15%)	Moderate-income	201 (17%)	25 (2%)	27 (2%)	253 (21%)
10 (77%)	Middle-income	635 (53%)	104 (9%)	153 (13%)	892 (75%)
1 (8%)	Upper-income	32 (3%)	1 (0.08%)	8 (0.7%)	41 (4%)
13 (100%)	<b>TOTALS</b>	868 (73%)	130 (11%)	188 (16%)	1,186 (100%)

# of Census Tracts	INCOME LEVEL BY CENSUS TRACT	Farms - less than \$1 million in sales	Farms - more than \$1 million in sales	Farms - sales not reported	Total Farms
0 (0%)	Low-income	0 (0%)	0 (0%)	0 (0%)	0 (0%)
2 (15%)	Moderate-income	23 (17%)	2 (1%)	0 (0%)	25 (18%)
10 (77%)	Middle-income	99 (72%)	6 (4%)	7 (5%)	112 (81%)
1 (8%)	Upper-income	1 (0.7%)	0 (0%)	0 (0%)	1 (0.7%)
13 (100%)	<b>TOTALS</b>	123 (90%)	8 (5%)	7 (5%)	138 (100%)



Community contacts made during the last three months expressed an urgent need for housing. The 1997 spring flood put a strain on the housing market as displaced families sought refuge from nearby Grand Forks, East Grand Forks and other flooded communities. The contacts said that there is a limited volume of housing available at all price levels, that there is even less available for low- and moderate-income families, and that programs for first-time home buyers have been slow to materialize.

Within the AA, there are 27 financial institutions, not including credit unions. Crookston is located only 25 miles from Grand Forks which provides aggressive competition from five national banks, two state banks, three savings and loan organizations, and several credit unions. Within the city of Crookston, there is another bank, two savings and loan institutions, and credit unions. The credit unions within the city of Crookston aggressively advertise for deposits.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

**LENDING TEST**

***Lending Activity***

The bank originated a significant volume of loans within the Assessment Area, especially in the volume of small farm loans made within the AA. The following chart shows the breakout, by dollar and number, of loans made inside and outside of the AA for 1996 HMDA, small business, and small farm loans as reported in the bank's CRA Disclosure Statement.

	1996 HMDA				1996 Small Business				1996 Small Farm			
	#	#-%	\$ (000s)	\$-%	#	#-%	\$ (000s)	\$-%	#	#-%	\$ (000s)	\$-%
<b>In</b>	120	84%	5882	82%	468	71%	10816	66%	750	87%	35253	90%
<b>Out</b>	23	16%	1285	18%	188	29%	5618	34%	109	13%	3739	10%
<b>Total</b>	143	100%	7167	100%	656	100%	16434	100%	859	100%	38992	100%

We did not review small business or small farm data from 1997 because the bank did not have it readily available and had not reviewed any preliminary information for accuracy.

Table 1 shows the number and dollar amount of loans to businesses and farms FAB originated in 1996 within the AA. The number and dollar volume of loans originated to small farms is good. The number of small business loans made to businesses with annual gross revenues greater than \$1 million (as reported by the bank and shown in Table 1) is skewed because of floor plan loans made to three local automotive or implement dealers within the AA. Rather than advance funds on a revolving line of credit, the bank originates separate loans for each floor-planned vehicle. If these loans would have been made as advances on an operating line to each of the businesses, the number of loans reported in the section for small loans to businesses with annual gross revenues greater than \$1 million would have been 24. This would greatly change the percentage of loans in each revenue category. The percentage of loans to businesses with gross revenues less than \$1 million would improve from 26% to 83%. Conversely, the percentage of loans to businesses with revenues greater than \$1 million would change from 74% to only 17%. By noting this adjustment, the bank demonstrates a reasonable volume of loans made to small businesses.

Table 1

1996 Originations	Small Loans to Businesses			Small Loans to Farms			Grand Totals		
	COUNT #	%	AMOUNT (000'S)	COUNT #	%	AMOUNT (000'S)	COUNT #	%	AMOUNT (000'S)
Revenues <= \$1 Million	121	26%	2,594	732	98%	32,133	853	70%	34,727
Revenues > \$1 Million	*347	74%	8,222	18	2%	3,119	365	30%	11,341
<b>Total</b>	468	100%	10,816	750	100%	35,252	1,218	100%	46,068

Data Source: Bank Records

\* See the explanation given in previous paragraph on page 10 for a description of what this number represents.

Table 2 shows the number and dollar amount of HMDA-reportable loans made in 1995 and 1996 within the AA. FAB originated high percentages of its HMDA-reportable loans within the AA over the period we reviewed. The bank originates an adequate number of real estate loans; however, the volume has decreased from 1995 to 1996. In 1995, the bank originated a higher number and dollar volume of loans than in 1996 but the actual percentage made inside the AA was not as large as 1996. By number of loans, 67% of the HMDA loans were made inside the assessment area in 1995; 84% of the loans were inside the assessment area in 1996. Bank officials offered several reasons why lending volumes for real estate loans decreased from 1995 to 1996. The most obvious is that the bank, at its option, is not maintaining information on home improvement loans. The significant decreases in conventional loan originations has two possible explanations. First is that the primary real estate lender who had also been a long-term employee of the bank left the bank during 1996. This person was well respected within the Crookston community and had a large, loyal customer base. Secondly, the bank found it unprofitable to originate smaller dollar loans after loan processing was moved to the holding company level. Typically, smaller dollar mortgage loans benefit low- and moderate-income borrowers. Tables 4 and 5 illustrate the effect of this practice by showing the significant decreases in real estate lending, especially for low-income borrowers that occurred between 1995 and 1996.

Table 2

HMDA PRODUCT	1995		1996	
	Number	\$ (000's)	Number	\$ (000's)
<i>Government Home Purchase</i>	29	1,438	31	1,345
<i>Conventional Home Purchase</i>	90	3,747	42	2,163
<i>Refinance</i>	27	1,132	47	2,374
<i>Home Improvement</i>	68	1,161	0	0
<i>Multifamily</i>	1	80	0	0
<b>TOTAL</b>	215	7,558	120	5,882

Data Source: Bank Records

We reviewed all installment loans (class code 20 for miscellaneous installment) made between May 1, 1997 and August 31, 1997. During this period, the bank originated 832 loans totaling \$4,673,293. A significant majority of them, 700 or 84% by number of originations, were made to borrowers within the assessment area.

### Distribution of Loans by Borrower Profile

Table 3 shows the number and dollar amount of loans in several size categories to businesses and farms with revenues of \$1,000,000 or less. The table shows that FAB made a substantial number of smaller dollar loans to small businesses and small farms. This demonstrates a strong commitment to meet the credit needs of small businesses and farms. Note: only large financial institutions (those with total assets greater than \$250,000,000 or an institution of any size that is an affiliate of a bank holding company with \$1 billion or more in banking and thrift assets) are required to report data on small business and small farm loans. Most other banks and financial institutions within FAB's AA are smaller, community banks that do not report this type of information. A comparison of FAB's performance compared to competitor banks would not, in this case, be meaningful.

**Table 3**

Distribution of Small Loans to Businesses and Farms with Gross Annual Revenues Less Than \$1 Million Assessment Area - 1996								
Loan Size	BUSINESSES				FARMS			
	Number	Percent	Amount (000's)	Percent	Number	Percent	Amount (000's)	Percent
Less than \$100,000	119	98.4%	2,194	84.6%	665	90.9%	18,792	58.5%
\$100,000 to \$250,000	2	1.6%	400	15.4%	56	7.6%	9,693	30.2%
Greater than \$250,000	0	0%	0	0%	11	1.5%	3,648	11.3%
<b>TOTALS</b>	<b>121</b>	<b>100%</b>	<b>2,594</b>	<b>100%</b>	<b>732</b>	<b>100%</b>	<b>32,133</b>	<b>100%</b>

Data Source: Bank Records

FAB has achieved reasonable market shares among borrowers of different income levels compared to its overall market share for the various HMDA loan categories. In most loan categories, FAB exceeds its overall market share with respect to low-income or moderate-income borrowers.

In 1996, FAB did not reach a proportionate share of low-income borrowers with respect to conventional home purchase loans. FAB did, however, modestly exceed its market share for conventional home loans to moderate-income borrowers in 1996. In 1995, the bank achieved a substantial volume of low-income borrowers for conventional loans compared to the bank's overall market share for this product. Among moderate-income borrowers, however, the bank did not reach its overall market share.

The bank showed good performance compared to market share in governmentally subsidized or insured loans in both 1995 and 1996. In 1995, the bank significantly exceeded the overall market share in the low- and

moderate-income borrowers. In 1996, FAB modestly exceeded market share for low-income borrowers and significantly exceeded the market share for moderate-income borrowers using a governmentally insured home loan product.

For 1996, the bank, at its option, has chosen not to maintain information or report home improvement loans as a separate category.

Table 4 illustrates the data discussed in the preceding paragraphs.

Table 4

HMDA Product & Income Category	1995	1996
<b>GOVERNMENT HOME PURCHASE</b>	<b>Overall Market Share = 23.39%</b>	<b>Overall Market Share = 20.81%</b>
<i>Low-Income Borrowers</i>	38.46%	22.22%
<i>Moderate-Income Borrowers</i>	30.00%	43.33%
<i>Middle-Income Borrowers</i>	19.44%	16.67%
<i>Upper-Income Borrowers</i>	14.71%	12.20%
<i>Borrowers with Unknown Income</i>	100%	0%
<b>CONVENTIONAL HOME PURCHASE</b>	<b>Overall Market Share = 33.09%</b>	<b>Overall Market Share = 18.26%</b>
<i>Low-Income Borrowers</i>	46.43%	11.11%
<i>Moderate-Income Borrowers</i>	24.32%	20.83%
<i>Middle-Income Borrowers</i>	35.62%	10.84%
<i>Upper-Income Borrowers</i>	30.30%	24.05%
<i>Borrowers with Unknown Income</i>	100%	100.00%
<b>REFINANCE</b>	<b>Overall Market Share = 17.65%</b>	<b>Overall Market Share = 15.82%</b>
<i>Low-Income Borrowers</i>	37.50%	20.00%
<i>Moderate-Income Borrowers</i>	21.43%	18.00%
<i>Middle-Income Borrowers</i>	12.24%	20.65%
<i>Upper-Income Borrowers</i>	19.05%	10.69%
<i>Borrowers with Unknown Income</i>	0%	22.22%
<b>HOME IMPROVEMENT</b>	<b>Overall Market Share = 28.69%</b>	<b>Overall Market Share = 0%</b>
<i>Low-Income Borrowers</i>	24.00%	NA
<i>Moderate-Income Borrowers</i>	37.93%	
<i>Middle-Income Borrowers</i>	25.27%	
<i>Upper-Income Borrowers</i>	28.89%	
<i>Borrowers with Unknown Income</i>	100%	

Data Source: FFIEC 1995 and 1996 Aggregate HMDA Data

FAB has generally achieved acceptable portfolio percentages among borrowers of different income levels compared to the population demographics of the AA and compared to the percentage of loans made to borrowers of different income levels made by all lenders throughout the AA. For low-income borrowers in 1995, FAB originated a higher percentage of loans of all types, except home improvement, than other lenders and also in proportion to the percent of families in this income category. However, during 1996, neither FAB nor the

other lenders have reached a proportionate share of any HMDA reportable loan product to low-income borrowers. Although significantly below the proportion representing the percentage of low-income families in the AA, in 1996, FAB made a larger percentage of governmentally-insured loans and refinance loans than all other lenders.

For moderate-income borrowers in 1995 and 1996, the bank had a significantly higher percentage of governmentally-insured loans than all other lenders. The bank had a higher percentage of conventional loans in 1996 to moderate-income borrowers. In both of these loan types, FAB lending exceeded the proportion of moderate-income families living in the AA. For refinanced and home-improvement loans, both FAB and the other lenders were below the proportion of families reporting moderate-income levels, although FAB exceeded the percentage of refinanced and home-improvement loans compared to the other lenders.

Table 5 illustrates the data discussed in the preceding paragraphs and shows that the bank has been generally successful in originating loans to low- and moderate-income borrowers in proportion to the AA demographics.

Table 5

Income Category & HMDA Product	1995		1996		Percent of Families in Income Category
	All Lenders	FAB	All Lenders	FAB	
<b>LOW-INCOME BORROWERS</b>					10.54%*
<i>Government Home Purchase</i>	8.4%	17.2%	5.9%	6.5%	
<i>Conventional Home Purchase</i>	8.2%	14.4%	8.5%	4.8%	
<i>Refinance</i>	4.0%	11.1%	4.8%	6.4%	
<i>Home Improvement</i>	11.2%	8.8%	NA%	0%	
<b>MODERATE-INCOME BORROWERS</b>					22.33%*
<i>Government Home Purchase</i>	29.5%	41.4%	14.4%	41.9%	
<i>Conventional Home Purchase</i>	15.4%	10.0%	20.2%	23.8%	
<i>Refinance</i>	17.5%	22.2%	16.4%	19.1%	
<i>Home Improvement</i>	10.7%	16.2%	NA%	0%	
<b>MIDDLE-INCOME BORROWERS</b>					28.15%*
<i>Government Home Purchase</i>	30.5%	24.1%	30.5%	35.5%	
<i>Conventional Home Purchase</i>	25.8%	28.9%	31.9%	21.4%	
<i>Refinance</i>	34.1%	22.2%	46.8%	40.4%	
<i>Home Improvement</i>	40.2%	33.8%	NA%	0%	
<b>UPPER-INCOME BORROWERS</b>					38.96%*
<i>Government Home Purchase</i>	30.5%	17.2%	30.5%	16.1%	
<i>Conventional Home Purchase</i>	50.5%	44.4%	31.9%	45.2%	
<i>Refinance</i>	40.5%	44.4%	46.8%	29.8%	
<i>Home Improvement</i>	37.9%	38.2%	NA%	0%	
<b>BORROWERS WITH UNKNOWN INCOME</b>					NA
<i>Government Home Purchase</i>	1.1%	0%	2.5%	0%	
<i>Conventional Home Purchase</i>	0%	2.2%	0%	4.8%	
<i>Refinance</i>	4.0%	0%	2.8%	4.3%	
<i>Home Improvement</i>	0%	2.9%	0%	0%	

\*The 1990 Census shows approximately 1,099 families (out of 10,808 total families) in the Assessment Area with income below the poverty level. We adjusted the percentage (19.63%) of families who are low-income by excluding the families who are below the poverty level because it is highly unlikely they could qualify for bank loans. This resulted in approximately 10.54% of the low-income families (with incomes between 30% - 50% of the median) who could potentially become borrowers. For consistency purposes, we also adjusted the denominator (which is the number of total families in the AA) in our calculation of the percentage of families within the other income categories.

Data Sources: FFIEC 1995 and 1996 Aggregate HMDA Data, Bank Records and 1990 Census Data-U.S. Bureau of the Census

The bank's lending to borrowers of different income levels for consumer loans is good and is reasonably proportional to the income level demographics of the AA. Our sample of installment loans was based on the 700 installment loans originated within the AA from May 1, 1997 to August 31, 1997. We reviewed income information on 100 borrowers from this group which represents 14% coverage.

Table 6 highlights the results of our file sample on consumer installment loans.

**Table 6**

<b>Income Level of Borrower</b>	<b># of Loans</b>	<b>% by number</b>	<b>\$ of Loans</b>	<b>% by Dollar</b>	<b>% of Families Within AA</b>
<b>Low-Income</b>	17	17%	84,061	14%	20%
<b>Moderate-Income</b>	20	20%	135,304	22%	20%
<b>Middle-Income</b>	28	28%	131,134	21%	25%
<b>Upper-Income</b>	17	17%	185,409	30%	35%
<b>Unknown</b>	18	18%	79,854	13%	NA
<b>TOTALS</b>	100	100%	\$615,762	100%	100%

Source: Bank records (sample of 100 installment loans out of 700 generated within the AA during a four month period in 1997)



***Distribution of Loans by Geography***

Dunn & Bradstreet information from 1995 shows that within the AA, there are 138 farms and 1,186 businesses. Of those, 123 (or 89%) of the farms and 868 (or 73%) of the businesses are designated as having annual gross revenues less than \$1 million.

The distribution of loans by geography is acceptable. However, the vast majority of all loans the bank made to small businesses and small farms were within the middle-income census tracts. The percentage of loans made to small businesses and small farms within moderate-income census tracts do not compare favorably with the percentage of moderate-income census tracts. It should be noted, however, that there are only two moderate-income census tracts and are located on the farthest eastern edge of the AA. Because of the distance from the bank's offices and the proximity of these census tracts to other competitor banks, it is reasonable that the bank would make fewer loans in this area.

Table 7 shows the bank's distribution of small loans to businesses and farms for 1996 by the income level of the geography in which the loan is located.

Table 7

1996	Low-Income CTs 0% of all CTs		Moderate-Income CTs 15% of all CTs		Middle-Income CTs 77% of all CTs		Upper-Income CTs 8% of all CTs		Totals	
	#	%	#	%	#	%	#	%	#	%
<b>Small Loans to Businesses</b>										
Revenues <= \$1 Million	0	NA	4	3%	117	97%	0	NA	121	100%
Revenues > \$1 Million	0	NA	0	NA	347	100%	0	NA	347	100%
Revenues Unknown	0	NA	0	NA	0	NA	0	NA	0	NA
Subtotal-Businesses	0	NA	4	1%	464	99%	0	NA	468	100%
<b>Small Loans to Farms</b>										
Revenues <= \$1 Million	0	NA	15	2%	716	98%	1	0%	732	100%
Revenues > \$1 Million	0	NA	0	NA	18	100%	0	NA	18	100%
Revenues Unknown	0	NA	0	NA	0	NA	0	NA	0	NA
Subtotal-Farms	0	NA	15	2%	734	98%	1	0%	750	100%
<b>Grand Total</b>	<b>0</b>	<b>NA</b>	<b>19</b>	<b>2%</b>	<b>1,198</b>	<b>98%</b>	<b>1</b>	<b>0%</b>	<b>1,218</b>	<b>100%</b>

Data Source: Bank Records

The bank achieved high market shares in moderate-income census tracts during 1995 in governmentally subsidized and insured home purchase loans. During 1996, FAB modestly exceeded the overall market share for these loan products. The bank had generally weak performance compared to its market share in both years for conventional loans in moderate-income census tracts. Although the bank's overall market share for refinanced loans decreased from 1995 to 1996, there were significantly more lenders reporting refinanced loans within this AA and a 94% increase in the number of refinanced loans originated in 1996. The number of refinanced loans originated by FAB nearly doubled from 1995 to 1996. Most of these loans were, however, in the middle-income census tracts. Only four refinanced loans were done by FAB in 1996 which accounts for the significant drop in market share in moderate-income CTs compared to overall market share. FAB was also below its overall market share in moderate-income census tracts for home improvement loans in 1995. The bank did not report home improvement loans as a separate category for 1996.

Table 8 illustrates market share comparisons based on the geography of the loan.

Table 8

HMDA Product & Income Category	1995	1996
<b>GOVERNMENT HOME PURCHASE</b>	<b>Overall Market Share = 23.39%</b>	<b>Overall Market Share = 20.81%</b>
<i>Low-Income CTs</i>	NA	NA
<i>Moderate-Income CTs</i>	46.15%	21.43%
<i>Middle-Income CTs</i>	22.55%	23.53%
<i>Upper-Income CTs</i>	0%	0%
<b>CONVENTIONAL HOME PURCHASE</b>	<b>Overall Market Share = 33.09%</b>	<b>Overall Market Share = 18.26%</b>
<i>Low-Income CTs</i>	NA	NA
<i>Moderate-Income CTs</i>	22.81%	4.76%
<i>Middle-Income CTs</i>	39.90%	26.90%
<i>Upper-Income CTs</i>	0%	0%
<b>REFINANCE</b>	<b>Overall Market Share = 17.65%</b>	<b>Overall Market Share = 15.82%</b>
<i>Low-Income CTs</i>	NA	NA
<i>Moderate-Income CTs</i>	20.00%	8.33%
<i>Middle-Income CTs</i>	18.69%	21.50%
<i>Upper-Income CTs</i>	0%	0%
<b>HOME IMPROVEMENT</b>	<b>Overall Market Share = 28.69%</b>	<b>Overall Market Share = NA</b>
<i>Low-Income CTs</i>	NA	NA
<i>Moderate-Income CTs</i>	24.32%	NA
<i>Middle-Income CTs</i>	34.30%	NA
<i>Upper-Income CTs</i>	0%	NA

Data Source: FFIEC 1995 and 1996 Aggregate HMDA Data

In 1996, FAB's portfolio percentage in moderate-income CTs compared favorably for government insured and subsidized home purchase loans compared to the percentage of loans made by all lenders in those CTs. Compared to other lenders in moderate-income CTs during 1995, the bank had significantly higher levels of government insured and subsidized loans. In 1995 and 1996, the bank's percentage of conventional home purchase loans in moderate-income CTs was much below the percentage of loans made by all lenders in those CTs. FAB penetrated moderate-income tracts with its refinancing loans in 1996 and home improvement loans in 1995, but well below the level of its competitors. The percentage of refinancing in 1995 was generally favorable to the level of all other lenders in moderate-income CTs. The percentage of all loan types in moderate-income CTs did not reach the level of owner-occupied housing in those CTs for 1996. The percentage of all types of loans in the middle-income CTs exceeds the level of owner-occupied housing in that geography. The bank did not originate any HMDA reportable loans in the one upper-income CT in either year.

Table 9 illustrates the data discussed in the preceding paragraph.

Table 9

Income Category & HMDA Product	1995		1996		Percent of Total CTs	Percent of Owner-Occupied Housing
	All Lenders	FAB	All Lenders	FAB		
<b>LOW-INCOME CTs</b>					NA	NA
<i>Government Home Purchase</i>	NA	NA	NA	NA		
<i>Conventional Home Purchase</i>						
<i>Refinance</i>						
<i>Home Improvement</i>						
<b>MODERATE-INCOME CTs</b>					15%	20%
<i>Government Home Purchase</i>	7.4%	20.7%	9.3%	9.7%		
<i>Conventional Home Purchase</i>	24.2%	14.4%	31.9%	7.1%		
<i>Refinance</i>	22.2%	25.9%	17.6%	8.5%		
<i>Home Improvement</i>	16.6%	13.2%	NA%	NA%		
<b>MIDDLE-INCOME CTs</b>					77%	74%
<i>Government Home Purchase</i>	83.2%	79.3%	77.1%	90.3%		
<i>Conventional Home Purchase</i>	63.7%	85.6%	56.4%	92.9%		
<i>Refinance</i>	69.0%	74.1%	62.8%	91.5%		
<i>Home Improvement</i>	66.9%	86.8%	NA%	NA%		
<b>UPPER-INCOME CTs</b>					8%	6%
<i>Government Home Purchase</i>	9.5%	0%	13.6%	0%		
<i>Conventional Home Purchase</i>	12.1%	0%	11.7%	0%		
<i>Refinance</i>	8.7%	0%	19.6%	0%		
<i>Home Improvement</i>	16.6%	0%	NA%	NA%		

Data Source: FFIEC 1995 and 1996 Aggregate HMDA Data

***Community Development Lending***

The bank is responsive to community development opportunities. During 1996 and 1997, the bank has made direct loans or made conditional funding arrangements that facilitated community development loans totaling \$2.3 million. The funding arrangements typically involved establishing letters of credit that made it possible for those businesses or service organizations to obtain permanent financing on projects that serve a community development purpose. These projects provided for a year round facility to house a Head Start program, helped to build town home projects for low- and moderate-income families, provided money for business start-up and business expansion, and helped to bring a new business to Crookston that employs 150 people.

***Flexible Loan Programs***

The bank participates in several programs for affordable housing that are offered through the Minnesota Housing Finance Authority. The bank originated 13 loans totaling \$373,950 and 20 loans totaling \$823,660 in 1996 and 1997, respectively. Loans originated under these programs are already included for consideration in the HMDA originations presented in this evaluation.

The bank was granted preferred status by the Small Business Administration in 1995 and 1996. In 1995, FAB closed three loans totaling \$157,000 through SBA programs. In 1996, the bank closed two SBA loans totaling \$940,000. The 1996 information is included in the small business loan data already considered in this evaluation.

**INVESTMENT TEST**

FAB has a good level of investment in the assessment area, primarily because of the volume and nature of grants and donations made to organizations that serve the community. During the evaluation period, FAB's affiliate, the Otto Bremer Foundation, made qualified grants totaling \$444,650 that benefitted low- and moderate-income individuals in the bank's assessment area. In 1997, qualifying grants of \$301,150 represented 11% of average annual net income for 1995, 1996, and projected 1997 net income. Total grants for the evaluation period represent approximately 7% of net income for the period evaluated through June 30, 1997.

During 1997, the Foundation made seven qualifying grants of \$153,000 to provide funds for direct and other flood related relief activities in the Red River Valley. These grants assisted residents affected by the flooding by providing for emergency child care services in East Grand Forks, coordination of relief workers, operation of a food shelf, general flood relief supplies, repairs to buildings, and replacement of equipment. In addition, the Foundation granted \$82,000, \$61,500, and \$148,150 in 1995, 1996, and 1997, respectively.

## SERVICE TEST

### Retail Banking Services

The bank's delivery systems are accessible to essentially all portions of FAB's assessment area. The bank's four branches are located in middle-income CTs/BNAs. This does not, however, affect the delivery of services to low- and moderate-income individuals because a majority (73%) of low- to moderate-income households are located in middle-income CTs. There are no low-income census tracts in the bank's assessment area. There are only two moderate-income census tracts which are located in the southeastern corner of the bank's assessment area and served by other financial institutions located in or near these CTs. The bank did not open or close any branches during the evaluation period.

FAB offers extended banking hours weekdays at the drive-up windows at the Crookston and Warren offices. The lobby and drive-up at the Crookston office are open on Saturday. Additional banking services are available through three 24-hour ATMs in Crookston located at the bank's main office, a service station, and a supermarket. The Warren office has a 24-hour ATM. The bank also offers a 24-hour telephone banking service, interpretation services in eight languages, and telephone banking for hearing impaired customers.

### Community Development Services

FAB provides a relatively high level of community development services. Housing for low- and moderate-income families has been identified as a critical need in the bank's assessment area. FAB personnel work with various local organizations and developers to put together financing packages that facilitate applications for Minnesota Finance Agency Affordable Rental Investment Funds and low-income housing tax credits from the federal government. During 1997, loan officers worked 60 hours preparing documents and information for commitments. In 1996, loan officers worked 25 hours on a similar project. Projects that FAB has been involved with include, but are not limited to, the following:

- FAB agreed to provide a mentoring service during 1997 for ten individuals who are coming off welfare. The bank is to assist them with money management training and living on a budget. The mentoring process is to help the individual learn how to handle his or her own financial affairs.
- FAB made a conditional commitment for \$675,000 in construction financing and up to \$225,000 in long-term financing for ten rental units in Fisher, MN.
- FAB made a \$900,000 conditional commitment to the City of Warren for its Community Rehabilitation Fund Program. The funding will be used to stimulate the development of new housing (single family, owner occupied) through "gap financing" and the acquisition and clearing of dilapidated properties.
- FAB facilitated a \$100M commitment from the Federal Home Loan Bank through its Affordable Housing Program for Tri-Valley Opportunity Council, Inc. The proceeds from the loan will be used in conjunction with other funds to build a 20-unit duplex project for low-income individuals in Crookston.

- FAB made a conditional financing proposal for up to \$950,000 of construction and up to \$500,000 of permanent financing to Midwest Minnesota Community Development Corporation and Northwest Multi-County HRA. The funds will be used for a 24-unit town home apartment project in Crookston.
- FAB made a conditional proposal for \$268,781 for construction and permanent financing to a development corporation for the construction and permanent financing of a proposed apartment project.

The bank distributed various disaster/relief assistance applications to residents and others displaced by the Red River Valley Flood in the Spring of 1997. This also included a brief relief-guide brochure on types of assistance available, eligibility guidelines, practical information about safety and clean-up, evacuation tips, banking services and loan programs available, and telephone numbers of several relief agencies.

An employee at FAB was a presenter in a home buyer's training session. The employee presented the different programs and loans available to attendees who were mostly low- or moderate-income individuals.

FAB is the only bank in Crookston that cashes state warrants. State warrants are issued to persons on public assistance.

#### **FAIR LENDING REVIEW**

We did not identify any substantive violations of the anti-discrimination laws (Equal Credit Opportunity, Fair Housing and Home Mortgage Disclosure Acts).