



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 23285
720 Broadway
Alexandria, Minnesota 56308**

**Supervisory Agency: Office of the Comptroller of the Currency
Minneapolis North Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 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 in which an institution's Community Reinvestment Act (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 Ageography®).*

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 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, Alexandria, Minnesota, (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 **ASatisfactory**.^o Major factors contributing to the **ASatisfactory**[@] rating include:

- o a good responsiveness to the assessment area's small business and small farm credit needs;
- o an adequate level of qualified 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		
Low Satisfactory		X	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

BBNA is a \$250 million intrastate institution located in west central Minnesota. BBNA's main office and one branch are located in Alexandria. BBNA's other three branches are located in Brandon, Morris and Starbuck, Minnesota. Automated teller machines (ATMs) are located at the main office and at the Alexandria and Morris branches. There are eight other ATMs in various Alexandria retail locations and one at a grocery store in Morris.

BBNA is a full-service bank, offering a variety of deposit and loan products. The bank's lending focus is commercial and agricultural credit. This is evidenced by the distribution of its outstanding loans, as well as the distribution of its originations considered in this evaluation. As of August 31, 1998, BBNA's loan portfolio consisted of commercial (38%), residential (26%), agricultural (18%), consumer (16%) and other (2%) loans. BBNA's loan to deposit ratio was 89% as of June 30, 1998. There are no financial, legal or other factors which impede the bank's ability to meet its CRA obligations.

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 AREA (AA)

BBNA's AA consists of Douglas, Pope and Stevens Counties. It includes the towns of Alexandria, Brandon, Chokio, Donnelly, Evansville, Garfield, Glenwood, Hancock, Kensington, Long Beach, Morris, Osakis and Starbuck. The AA complies with regulatory requirements; it does not arbitrarily exclude any low- or moderate-income areas.

All 16 block numbering areas (BNAs) in the AA are middle-income. The distribution of families within the AA is quite even - 21% are low-, 21% are moderate-, 25% are middle-, and 33% are upper-income. The 1998 Department of Housing and Urban Development's statewide median family income estimate is \$40,500.

The AA includes many lakes and recreation areas. As a result, the population surges in the summer months when people reside in lake homes and rental property. This situation contributes to the high percentage of rental (20%) and vacant housing units (23%) in the AA. It also makes it more difficult for local banks to make residential loans because non-local vacation home and rental cabin owners frequently obtain financing from out-of-area lenders.

The table on the next page 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 revenues.

Assessment Area Profile					
DEMOGRAPHIC CHARACTERISTICS	#	Income Level			
		Low % of #	Moderate % of #	Middle % of #	Upper % of #
Block Numbering Areas (BNAs)	16	n/a	n/a	100%	n/a
Population by BNA Income Level	50,053	n/a	n/a	100%	n/a
Family By Income Level (10% below poverty)	13,324	21%	21%	25%	33%
Families By BNA Income Level	13,324	n/a	n/a	100%	n/a
Households By Income Level (16% below poverty)	18,952	27%	17%	20%	36%
Households By BNA Income Level	18,952	n/a	n/a	100%	n/a
Owner Occupied Housing Units By BNA Income Level	13,972	n/a	n/a	100%	n/a
Farms By BNA Income: Revenues < = \$1 million: (97%) Revenues > \$1 million (1%) Unreported Revenues (2%)	94 1 2	n/a	n/a	100% 100% 100%	n/a
Businesses By BNA Income: Revenues < = \$1 million (70%) Revenues > \$1 million (7%) Unreported Revenues (23%)	1,598 155 531	n/a	n/a	100% 100% 100%	n/a
Median Housing Value = \$48,584					
Median Family Income - 1990 = \$26,958					
HUD Adjusted Median Family Income for 1998 = \$40,500					

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

The economy of the assessment area is diverse. Alexandria serves as the region's retail hub, and the tourism industry thrives in the summer months. Douglas County has experienced accelerated economic growth due to development of the county's natural resources and its close proximity to metropolitan areas. In recent years, the county has attracted many expanding and relocating businesses. Smaller towns in the AA depend primarily on manufacturing, government and education employers. Agriculture remains the foundation of the economy throughout the surrounding rural areas, with agricultural production concentrated in corn and soybeans.

BBNA has the largest (26%) deposit market share in the AA according to 1998 FDIC Deposit Summary Information. There are 19 competing institutions with at least one branch in the AA. Competition includes two regional banking companies headquartered in Minneapolis, MN, a large community bank based in Fargo, ND and numerous small community banks.

Community contacts revealed various housing needs. More single and multi-family housing is needed throughout the AA. The contacts expressed a need for down payment assistance programs for LMI applicants. The aging housing stock also creates the need for home-improvement loans. We conducted one

contact during this exam and reviewed three, recently completed contacts by other regulators. Contacts included two housing organizations, a Realtor and a local community development corporation.

EXAMINATION SCOPE

We examined BBNA using the Lending, Investment, and Service Tests for large banks pursuant to the revised CRA regulation. We used these tests to assess the bank's record of helping to meet community credit needs. We analyzed BBNA's small business, small farm, residential mortgage, and community development lending efforts; 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 (December 1995).

- o The evaluation does not include geographic distribution analysis. This analysis was not meaningful given the homogeneity of the bank's AA which consists entirely of middle income geographies.
- o Our analysis of business and farm lending included all 1996 and 1997 reported originations. Data is reported and aggregated in whole years. At the time of the examination, 1998 information was not yet available for the bank or the market in aggregate.
- o After validating the accuracy of the bank's CRA Disclosure Statements, we used this information in our analysis of business and farm lending.
- o Our analysis of residential loans included 1996 and 1997 originations. The bank maintains a HMDA Loan Application Register even though it is not required to do so. After validating the accuracy of the register, we used this information in our evaluation.
- o Our analysis of residential loans did not include home improvement loans. Bank systems do not separately code this product.
- o Bank performance was consistent in both the home purchase and refinance products. Because there were no material differences, the products are consolidated for presentation in the evaluation.
- o In the lending test, we gave the most weight to business loans, followed by farm loans and then residential loans. Over the evaluation period, the distribution of originations by number was: business loans (45%); farm loans (36%); and residential loans (19%). The distribution by dollar volume of loan originations was: business loans (40%); farm loans (31%); and residential loans (29%).
- 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's lending levels reflect good responsiveness to the area's small business and small farm credit needs. In particular, the distribution of loans to small businesses and farms is good. The bank has also demonstrated an adequate responsiveness to residential credit needs.

Small Business Lending

BBNA has demonstrated good responsiveness to business credit needs. The bank originated 522 business loans totaling \$30 million in 1996. BBNA increased its business lending by originating 652 loans totaling \$41 million in 1997.

BBNA originated a substantial majority of its business loans inside the AA. BBNA originated 91% of its 1996 business loans inside the assessment area. This ratio was 89% in 1997. By dollar volume, BBNA originated 84% within the AA in 1996 and 89% in 1997.

The distribution of loans by revenue size reflects good responsiveness to small businesses. BBNA originated 76% of its 1996 reported loans in the assessment area to small businesses. This ratio was 75% in 1997. Bank performance is consistent to market demographics - 70% of businesses have revenues of \$1 million or less, 7% have revenues in excess of this amount, and 23% did not report revenues.

Of all banks subject to CRA data reporting, BBNA originated the seventh largest share of small business loans in its AA in 1996, and the fifth largest share in 1997. BBNA originated 4% of all reported small business loans in the AA in 1996, and 7% in 1997. The market leader (with 19% of small business originations) is a much larger institution that serves a larger geographic area.

BBNA's willingness to make small business loans is further evidenced by an excellent loan size distribution. The bank originated 89% of its small business loans (by number) in amounts of \$100,000 or less and 34% in amounts of \$10,000 or less. The table on the next page further details small business loan size distribution.

Loan Size Distribution of Small Business Loans Inside the Assessment Area								
Loan Amount	1996				1997			
	#	%	\$	%	#	%	\$	%
\$0 to \$10,000	145	40%	778	6%	125	29%	758	3%
\$10,001 to \$25,000	92	26%	1,533	11%	115	26%	2,136	9%
\$25,001 to \$50,000	65	18%	2,399	18%	82	19%	3,154	13%
\$50,001 to \$100,000	30	8%	2,074	16%	55	13%	4,324	17%
\$100,001 to \$250,000	22	6%	3,401	25%	35	8%	6,038	24%
\$250,001 to \$500,000	3	1%	952	7%	16	4%	5,387	22%
\$500,000 to \$1,000,000	3	1%	2,265	17%	5	1%	2,990	12%
Total	360	100%	13,402	100%	433	100%	24,787	100%

Source: Bank Records

Small Farm Lending

BBNA has demonstrated good responsiveness to farm credit needs. The bank originated 794 farm loans totaling \$38.5 million over the evaluation period. More specifically, BBNA originated 369 farm loans totaling \$18.0 million in 1996 and 425 loans totaling \$20.5 million in 1997.

BBNA originated a high percentage of its farm loans inside the AA - 82% by number in 1996, and 81% in 1997. By dollar, BBNA originated 77% inside the AA in 1996 and 80% in 1997.

The distribution of loans by revenue size reflects good responsiveness to small farms. BBNA originated 99% of its reported loans in its AA to small farms in 1996. This ratio was 98% in 1997. Bank performance slightly exceeds market demographics - 97% of farms have revenues of \$500,000 or less, 1% have revenues in excess of this amount, and 2% did not report.

Of all banks subject to CRA data reporting, BBNA originated 6% of all reported small farm loans in the AA in 1996 and 7% in 1997. This represents the fifth largest share of reported originations in 1996 and the sixth largest share in 1997. The largest originator is a much larger institution that serves a greater geographic area.

BBNA's willingness to make small business loans is further evidenced by an excellent loan size distribution. The bank originated 87% of its small farm loans (by number) in amounts of \$100,000 or less and 34% in amounts of \$10,000 or less. The following table further details small farm loan size distribution.

Loan Size Distribution of Small Farm Loans Inside the AA								
Loan Amount	1996				1997			
	#	%	\$	%	#	%	\$	%
\$0 to \$10,000	101	34%	516	4%	118	35%	635	4%

\$10,001 to \$25,000	65	22%	1,025	8%	70	21%	1,320	8%
\$25,001 to \$50,000	53	18%	1,923	15%	62	18%	2,303	15%
\$50,001 to \$100,000	43	14%	3,239	25%	47	14%	3,725	23%
\$100,001 to \$250,000	34	11%	5,195	39%	37	11%	6,364	40%
\$250,001 to \$500,000	4	1%	1,235	9%	5	1%	1,588	10%
Total	300	100%	13,133	100%	339	100%	15,935	100%

Source: Bank Records

Real Estate Lending

BBNA has demonstrated adequate responsiveness to residential credit needs. In 1997, BBNA originated 248 residential loans totaling \$21 million. These loans were comprised of 139 home purchase loans totaling \$11 million and 108 refinance loans totaling \$10 million. This represents a significant improvement over 1996 originations of 79 loans totaling \$6 million. This increase is attributable to a favorable interest rate environment.

BBNA originated a high percentage of its 1997 loans inside the AA - 85% by number and 87% by dollar volume. The bank's 1996 residential loan information is limited, therefore we could not compute this ratio for 1996 originations.

BBNA's borrower income distribution of real estate loans is adequate. Performance in the moderate-income geographies is adequate. In 1997, BBNA originated 14% of its residential loans to moderate-income families, which compares to a demographic figure of 21%. Penetration to low-income borrowers is significantly below the demographic figure; however, 10% of the families in the AA are below the poverty level which reduces the opportunities to make loans to low-income borrowers. The bank's distribution of residential loans by borrower income level within the AA is illustrated in the following table.

Residential Mortgage Originations By Borrower Income Level

Borrower Income Level	Percent of Families in Income Category	1996				1997			
		#	%	\$	%	#	%	\$	%
Low-income	21%	2	3%	47	1%	8	3%	313	1%
Moderate-income	21%	13	16%	574	9%	36	14%	2,028	10%
Middle-income	25%	19	24%	1,286	21%	76	31%	5,262	25%
Upper-income	33%	44	56%	4,115	68%	124	50%	13,356	63%
Income Not Available	0%	1	1%	87	1%	4	2%	234	1%
Total	100%	79	100%	6,109	100%	248	100%	21,193	100%

Source: Bank Records, U.S. Bureau of the Census (1990)

Community Development Lending

During the evaluation period, BBNA originated one community development loan totaling \$1.8 million. This loan facilitates job creation in a city-designated redevelopment district.

INVESTMENT TEST

BBNA and its affiliate, the Otto Bremer Foundation (OBF), have made an adequate level of qualified investments during the evaluation period. Opportunities for traditional investments that support community development are limited given the rural nature of, and the lack of LMI BNAs in, the bank's assessment area. Most of these investments were in the form of traditional grants and donations made by the Foundation. The OBF made 36 qualifying grants and donations totaling \$221,803. BBNA directly made six qualifying investments totaling \$10,500. 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. Total qualified investments of \$232,303 represent approximately 1% of the bank's Tier 1 capital as of June 30, 1998.

SERVICE TEST

Retail Banking Services

BBNA's banking facilities are reasonably accessible to geographies and individuals of different income levels in its AA. All portions of the AA are within approximately 20 miles of a banking office, which is reasonable given the bank's predominately rural AA. BBNA has a main office, four branches and eleven ATMs. All offices are full service facilities. Eight ATMs are located in various retail outlets, and three are located at branch sites.

Banking hours are reasonable and tailored to community needs. All offices provide extended hours on Friday; one office also provides extended hours on Thursday; and four offices offer Saturday hours. Loan officers are also willing to make after-hour appointments with customers.

There are few differences in products and services between BBNA branches. All offices offer the same basic loan products. The Brandon and Starbuck branches do not have a residential real estate loan officer on staff, but the offices are located within 25 miles of the Alexandria offices which do. All branches offer the same deposit products with no material differences in fees.

Community Development Services

BBNA's community development services are limited. Services consist of providing technical expertise to, and serving on Boards of Directors of, organizations that address small business needs, social services for low and moderate income individuals and job training needs. During the evaluation period, the bank provided five qualifying community development services. Specific examples include:

- o A bank officer serves on the Board of Directors and Credit Committee of the Stevens County Economic Improvement Commission. The Commission's purpose is to enhance economic development by assisting small business start up and expansion.
- o A bank officer serves as President and on the Board of Directors of the Alexandria Area Economic Development Commission. The Commission provides counseling, technical assistance and financing to area small businesses.

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 originated between January 1, 1997 and August 31, 1998.