



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

---

## **PUBLIC DISCLOSURE**

**April 14, 2004**

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

**BNC National Bank  
Charter Number 24224**

**2425 East Camelback Road, Suite 100  
Phoenix, AZ 85016**

**Comptroller of the Currency  
North Dakota & NW Minnesota  
3211 Fiechtner Drive, SW  
Fargo, ND 58103**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, 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.**

## Table of Contents

Institution's Rating .....	1
Description of Institution .....	1
Description of Phoenix Assessment Area .....	2
Description of Minneapolis Assessment Area .....	3
Description of Bismarck Assessment Area .....	5
Description of the Rural North Dakota Assessment Area .....	7
Loan Sampling .....	8
Conclusions about Performance Criteria .....	10
Loan-to-Deposit Ratio.....	10
Lending in Assessment Area.....	10
State Ratings .....	11
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes .....	11
Geographic Distribution of Loans .....	15
Responses to Complaints .....	21
Fair Lending Review .....	21

## **INSTITUTION'S CRA RATING: Satisfactory**

BNC National Bank, N.A.'s (BNC) lending performance reflects a satisfactory response to community credit needs. This conclusion is based on the following results.

- The bank originated a substantial majority of its loans inside its assessment areas.
- The loan to deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area needs.
- Lending activities represent reasonable penetration to businesses of different sizes and to residential real estate borrowers of different income levels.
- The geographic distribution of loans reflects a reasonable dispersion throughout two of the bank's assessment areas.

## **DESCRIPTION OF INSTITUTION**

BNC is located in the city of Phoenix, Arizona. BNC is an interstate bank operating in three states; Arizona, Minnesota, and North Dakota. BNC has a total of 14 branches; two branches in Arizona, two branches in Minnesota, and ten branches in North Dakota.

BNC has a total of ten Assessment Areas (AAs). These AAs include the Bismarck, North Dakota branches and all of the Bismarck MSA #1010; the Minnesota branches and all of the Minneapolis – St. Paul MSA #5120; the Arizona branches and all of the Phoenix – Mesa MSA #6200; and several rural AAs surrounding the bank's branches in the North Dakota communities of Linton, Watford City, Crosby, Garrison, Ellendale, Stanley, and Kenmare.

The BNC charter started as BNC National Bank of Arizona, a De Nova charter in Phoenix, Arizona on July 9, 2001. On April 8, 2002 the bank merged with its affiliate, BNC National Bank, which consisted of its Minnesota and North Dakota banks. The newly merged bank maintained the Arizona charter and kept the name, BNC National Bank. Prior to the year 2000, the Minnesota and North Dakota banks were also in separate charters. These banks were merged together in 2000.

BNC's assets as of December 31, 2003 total \$621 million. BNC is owned by BNCCORP, Inc a publicly traded company that provides a broad range of banking, insurance, brokerage, trust and other financial services primarily through BNC. BNCCORP, Inc is headquartered in Bismarck, North Dakota and has \$621 million in total assets.

BNC's primary lending focus is on commercial and commercial real estate lending. As of December 31, 2003, construction and development loans represent 20% of total loans,

commercial real estate loans equal 38%, and commercial loans equal 26.5%. In total, commercial and commercial real estate loans represent 84.5% of the bank's total gross loans.

Net loans represent 45% of total bank assets. Tier One Leverage Capital for the bank is 7.37% of average assets, or \$43.3 million. There are no legal impediments that would restrict the bank's ability to meet credit needs of its communities.

BNC is a De Novo charter and this will be its first CRA examination. The most recent CRA examination for the BNC National Bank charter #22352 (North Dakota operations) is from December 31, 1997. The bank received a "Satisfactory" rating. The most recent CRA examination for the BNC National Bank of Minnesota charter #22973 is from January 4, 1999. The bank received a "Satisfactory" rating.

## **DESCRIPTION OF THE PHOENIX ASSESSMENT AREA**

BNC's Phoenix, Arizona AA consists of the entire Phoenix – Mesa MSA. This MSA includes the counties of Maricopa and Pinal. It is the largest MSA within the state of Arizona. The bank has three locations located within the MSA. The AA meets the requirements of the regulation.

Based on the 2000 census there are 696 census tracts (CTs) in the MSA. Of the 696 CTs, 43 are designated as low-income, 203 are moderate-income, 234 are middle-income, 210 are upper-income, and 6 tracts are designated as "NA". The 2003 Department of Housing and Urban Development (HUD) estimated median family income is \$58,300.

The MSA has a diversified economic base. Manufacturing is a leading industry, with the electronics industry also having a strong presence. Tourism is also a strong force in the area's economic prosperity. Major employers located in the MSA include; the State of Arizona, Wal-Mart stores, Maricopa County, Banner Health Systems, and Honeywell International.

Table 1 on the following page illustrates the demographics of the AA.

<b>Table 1: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE PHOENIX AA</b>	
<i>Population</i>	
Number of Families	814,264
Number of Households	1,194,461
% of Low-Income Families	19.6%
% of Moderate-Income Families	18.8%
% of Middle-Income Families	21.8%
% of Upper-Income Families	39.8%
<i>Geographies</i>	
Number of Census Tracts/BNA	696
% Low-Income Census Tracts/BNA	6.2%
% Moderate-Income Census Tracts/BNA	29.2%
% Middle-Income Census Tracts/BNA	33.6%
% Upper-Income Census Tracts/BNA	30.2%
NA	.9%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$51,126
2003 HUD-Adjusted MFI	\$58,300
<i>Economic Indicators</i>	
2003 Unemployment Rate	4.9%
2002 Median Housing Value	\$141,700
% of Households Below Poverty Level	9%

\*\* Table is based on 2000 census information with updated information when available.

Competition for financial services is strong with over 60 institutions dividing nearly \$40 billion worth of deposits. According to the Federal Deposit Insurance Corporation's (FDIC) June 30, 2003 deposit market share report, three large, nationwide banks control 69.6% of the deposit market. Based on June 30, 2003 market share data, BNC has a .13% share of the deposit market within the MSA.

Community contacts were made with small business organizations and non-profit affordable housing organizations. These contacts were performed by the OCC and various other banking agencies. The contacts indicated a need in the Phoenix-Mesa MSA for more affordable housing units, including both rental units and homes for purchase. The contacts also mentioned the need for small business loans, particularly for start-up companies.

## **DESCRIPTION OF THE MINNEAPOLIS ASSESSMENT AREA**

BNC 's Minneapolis, Minnesota AA consists of the entire Minneapolis – St. Paul MSA. This MSA includes Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright Counties in Minnesota as well as Pierce and St. Croix Counties in

Wisconsin. The bank has two locations in the MSA. One branch is located in downtown Minneapolis and a second location, in Golden Valley, was opened on April 29, 2004.

Minneapolis and St. Paul, the largest cities in the MSA and in the State, are of comparable size. The population of Minneapolis in the 2000 census was 382,618. St. Paul's population was 287,151. Combined these two cities contain 670,000 residents, or 22% of the MSA population.

Based on the 2000 census there are 746 CTs in the MSA. Of the 746 CTs, 47 are designated as low-income, 157 are moderate-income, 373 are middle-income, 164 are upper-income, and 5 tracts are designated as "NA". The 2003 HUD estimated median family income is \$75,300.

The MSA has a diversified economic base. It is the center for high-tech electronics, medical instruments, health care, finance, insurance, entertainment, and the arts. The area is home to sixteen FORTUNE 500 companies and several large private companies. The University of Minnesota is area's largest employer with over 34,000 employees. Other large employers include Target Corporation, Wells Fargo, US Bank, and state and local governments.

Table 2 below illustrates demographic data of the AA.

<b>Table 2: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE MINNEAPOLIS AA</b>	
<i>Population</i>	
Number of Families	749,301
Number of Households	1,137,313
% of Low-Income Families	17%
% of Moderate-Income Families	19%
% of Middle-Income Families	26.4%
% of Upper-Income Families	37.6%
<i>Geographies</i>	
Number of Census Tracts/BNA	746
% Low-Income Census Tracts/BNA	6.3%
% Moderate-Income Census Tracts/BNA	21%
% Middle-Income Census Tracts/BNA	50%
% Upper-Income Census Tracts/BNA	22%
NA	.7%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$65,450
2003 HUD-Adjusted MFI	\$75,300
<i>Economic Indicators</i>	
Unemployment Rate	3.5%
2003 Median Housing Value	\$194,000
% of Households Below Poverty Level	6%

\*\* Table is based on 2000 census information with updated information when available.

Competition for all types of loans, especially mortgage and commercial loans, and for deposits is strong. There are 168 banks within the AA operating 720 offices. According to the FDIC's

June 30, 2003 deposit market share report the two largest banks in the MSA have nearly 59% of all deposits. BNC has a .08% deposit market share.

Housing costs have surged in recent years increasing the median cost of housing from \$144,994 in 2000 to \$194,000 in the first half of 2003. Community contacts indicate a strong need for affordable housing and assistance for first-time homebuyers, credit counseling, and programs that require no or low down payments. The need includes both lower cost single family homes for purchase and lower cost rental units.

Overall, community contacts felt that local banks are adequately serving the credit needs of the community. Community contacts were reviewed from a variety of affordable housing, non-profit, and small business organizations.

## **DESCRIPTION OF THE BISMARCK ASSESSMENT AREA**

BNC 's Bismarck, North Dakota AA consists of the entire Bismarck MSA. The MSA is made up of Burleigh County and Morton County of North Dakota. The bank has three full service branches located within the AA. The Bismarck MSA is the only MSA located completely within the State of North Dakota. The city of Bismarck is the largest city in the MSA with a 2000 census population of 55,500. The city of Mandan is adjacent to Bismarck and has a 2000 population of 16,700. The two cities contain over 76% of the MSA population.

Based on the 2000 census there are 21 CTs in the MSA. Of the 21 CTs, there are no tracts designated as low-income, 4 are moderate-income, 15 are middle-income, and 2 are upper-income. The 2003 HUD estimated median family income is \$59,100.

The MSA is a regional hub for healthcare, retail, and service industries. Bismarck is the State capital of North Dakota and the MSA has a substantial federal, state and local government workforce. The leading private employers are Medcenter One Health Systems, St. Alexius Medical Center, and Bobcat/Ingersoll Rand. Unemployment throughout the AA is low at 3.6%.

Table 3 on the following page illustrates the demographics of the AA.

<b>Table 3: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE BISMARCK AA</b>	
<i>Population</i>	
Number of Families	25,265
Number of Households	37,620
% of Low-Income Families	17.4%
% of Moderate-Income Families	18.5%
% of Middle-Income Families	27.3%
% of Upper-Income Families	36.4%
<i>Geographies</i>	
Number of Census Tracts/BNA	21
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	19%
% Middle-Income Census Tracts/BNA	71.5%
% Upper-Income Census Tracts/BNA	9.5%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$49,941
2003 HUD-Adjusted MFI	\$59,100
<i>Economic Indicators</i>	
Unemployment Rate	3.6%
2000 Median Housing Value	\$83,418
% of Households Below Poverty Level	9%

\*\* Table is based on 2000 census information with updated information when available.

BNC faces significant competition throughout the AA. According to the FDIC's June 30, 2003 deposit market share report, five banks control slightly over 79% of the deposit base. BNC is 5<sup>th</sup> in deposit market share with a 10.87% share. Competition ranges from small and large community banks to two large, nationwide banks.

The overall economy of the MSA is good. The metro area has expanded nearly 2,000 jobs since the end of 2001. Growth has not been concentrated in a particular industry but several industries, including retail, healthcare, and financial services, have done well. The MSA needs a continued source of labor to continue to grow and prosper. Estimates place 2004 unemployment within the MSA at around 3.0%.

We conducted and reviewed several community contacts throughout the bank's AA. These contacts included community economic development organizations, state and federal government agencies, and other local non-profit agencies. Contacts mentioned the need for small business start-up loans, agriculture operating loans, and affordable housing loans. In respect to affordable housing, the area needs to expand its supply of affordable homes for purchase. One contact we talked to felt that local financial institutions are meeting the needs of the community.



## **DESCRIPTION OF THE RURAL NORTH DAKOTA ASSESSMENT AREA**

BNC has seven branches, each with its own AA, located in rural communities in North Dakota. Each of these AAs are rural and have similar performance context issues. We are combining these AAs for our analysis.

BNC 's rural North Dakota AA is made up of portions of Emmons, McKenzie, Divide, McLean, Dickey, Mountrail, Burke, Renville, and Ward Counties in North Dakota. Bank branches are located in the communities of Linton, Watford City, Crosby, Garrison, Ellendale, Stanley, and Kenmare. The 2000 census population of the AA is 36,248, which is a decrease of about 700 people since the last census in 1990.

Based on the 2000 census there are 18 CTs in the AA. Of the 18 CTs, there are no tracts designated as low-income, 3 are moderate-income, 14 are middle-income, and one is upper-income. The 2003 HUD estimated median family income for the State of North Dakota is \$46,800.

The AAs are rural and rely heavily on agriculture and small business. The AA consists of small communities, sometimes widely geographically separated. Unemployment is minimal throughout the AA with January 1, 2003 unemployment ranging from 2.0% in Divide County to 6.5% in Emmons County.

Table 4 on the following page illustrates the demographics of the AA.

<b>Table 4: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE RURAL NORTH DAKOTA AA</b>	
<i>Population</i>	
Number of Families	10,292
Number of Households	14,902
% of Low-Income Families	21.16%
% of Moderate-Income Families	20.83%
% of Middle-Income Families	24.46%
% of Upper-Income Families	33.55%
<i>Geographies</i>	
Number of Census Tracts/BNA	18
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	17%
% Middle-Income Census Tracts/BNA	78%
% Upper-Income Census Tracts/BNA	6%
<i>Median Family Income (MFI)</i>	
2000 MFI for State of North Dakota	\$39,663
2003 HUD-Adjusted MFI	\$46,800
<i>Economic Indicators</i>	
2003 Unemployment Rate: North Dakota	3.6%
2000 Median Housing Value	\$44,498
% of Households Below Poverty Level	15%

\*\* Table is based on 2000 census information and updated when information is available.

Competition in the AAs is primarily from community banks located throughout each AA. The geographical distance separating each community serves as a slight buffer to competition. According to the FDIC's June 30, 2003 deposit market share report, BNC is 5<sup>th</sup> in deposit market share within the nine Counties it serves, which amounts to a 7.60% share.

We conducted and reviewed several community contacts throughout the banks' AA. These contacts included community economic development organizations, state and federal government agencies, and other local non-profit agencies. Contacts mentioned the need for business development loans to create higher paying jobs to stop the flight of North Dakota's young people to larger cities.

## **Loan Sampling**

The bank's primary loan types were determined by taking all loans originated/purchased by BNC for the time period from January 1, 2002 to December 31, 2003. Table 5 on the following page depicts the number and volume of loans made.

<b>Table 5: Loan Products</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
Agricultural Loans	349	11%	30,799	5%
Business Loans	879	28%	500,079	78%
Consumer Loans	978	31%	13,448	2%
Residential Real Estate Loans	933	30%	97,358	15%
<b>Total</b>	<b>3,139</b>	<b>100%</b>	<b>641,684</b>	<b>100%</b>

Loans originated from January 1, 2002 to December 31, 2003

For the purpose of this evaluation the primary loan types are business loans and residential real estate loans. These two products combine for 58% of the number and 93% of the dollar volume of loans originated during this timeframe. Due to the large volume of business loans and BNC's strategic focus as a business bank, greater emphasis will be placed on the bank's business lending performance in determining the bank's overall rating.

Due to changes in the composition of the bank's AAs from the 1990 and 2000 census we conducted two loan samples of each primary product in order to evaluate the geographical distribution of loans. Loans made in the year 2002 are compared to 1990 geographic boundaries and loans made in 2003 are compared to 2000 geographic boundaries.

Our business loan sample included 20 files from each of BNC's AAs, except for the rural North Dakota AA, for 2002 and 20 files from each AA for 2003. This resulted in a total of 120 business files being sample, 40 for each AA. Due to the limited volume of business loans made in the rural North Dakota AA we were unable to reach our minimal sample size and did not include these loans in our analysis.

After initial sampling to determine the bank's lending within the AA, additional files were selected so that all loans used in the borrower and geographic distribution were from one of BNC's AAs.

Since BNC is required to submit Home Mortgage Disclosure Act (HMDA) data, the residential real estate loan sample included all of the bank's reportable HMDA loans. For the geographic distribution of loans we separated the loans into those made in 2002 and compared them to 1990 geographic boundaries. Additionally, we separated loans made in 2003 and compared them to 2000 geographic boundaries. After determining the bank's lending within the AA, we used only those HMDA reportable loans that were made within the bank's AAs.

Of the HMDA reportable loans, home refinance is the bank's leading product with 46% of the number and nearly 60% of the dollar volume of HMDA loans originated in 2002 and 2003. Home improvement loans and home purchase loans represented 28.2% and 25.8% respectively of the number of HMDA loans made.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance given the size, financial condition, assessment area needs, and local economic conditions. The bank's quarterly LTD ratio averaged 87.64% over the past ten quarters since the bank's inception on July 9, 2001. The LTD ratio has ranged from 132.52% in the 3<sup>rd</sup> quarter of 2001 to 69.9% in the 4<sup>th</sup> quarter of 2003.

Table 6 compares BNC's LTD ratio with seven other similarly situated financial institutions. These institutions are similar in size and are all from the Phoenix, Arizona area. The LTD ratios of these institutions range from 68.35% to 126.32%.

<b>Table 6: Loan-to-deposit Institution</b>	<b>Assets as of 12/31/03 (\$000s)</b>	<b>Average LTD Ratio (%)</b>
Northern Trust Bank, National Association	1,176,325	126.32%
Johnson Bank Arizona, National Association	458,002	105.16%
First National Bank of Arizona	1,241,100	103.09%
<b><i>BNC National Bank</i></b>	<b><i>620,872</i></b>	<b><i>87.64%</i></b>
The Harris Bank National Association	493,907	85.33%
Western Security Bank	171,717	83.08%
Meridian Bank, National Association	504,002	80.20%
Alliance Bank of Arizona	187,314	68.35%

### Lending in Assessment Area

BNC's lending within its AAs exceeds the standard for satisfactory performance. A substantial majority of loans are made within the bank's AAs. Nearly 90% by number and 90% by dollar volume of the business and HMDA loans reviewed were within one of the bank's AAs. We used our sample of business loans and all reportable HMDA loans to reach this conclusion. The following table illustrates lending activity within the bank's AAs during 2002 and 2003.

<b>Table 7: Lending in BNC's AAs</b>								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$ (000)	%	\$(000)	%
Business Loans	97	80.8%	23	19.2%	65,728	91.25%	6,303	8.75%
HMDA Loans	850	91.1%	83	8.9%	86,237	88.6%	11,126	11.4%
<b>Totals</b>	<b>947</b>	<b>89.9%</b>	<b>106</b>	<b>10.1%</b>	<b>151,956</b>	<b>89.7%</b>	<b>17,438</b>	<b>10.3%</b>

*Source: HMDA reportable loans and business loan sample*

## State Ratings

The bank has operations in three states; North Dakota, Arizona and Minneapolis. Under small bank performance standards, each state receives a CRA rating based on its performance in the borrower distribution analysis and the geographic distribution analysis. The North Dakota rating is based on the bank's performance in the Bismarck AA and the rural North Dakota AA. The Arizona rating is based on the bank's performance in the Phoenix AA and the Minnesota rating is based on the bank's performance in the Minneapolis AA.

BNC's CRA performance in the state of North Dakota is "Satisfactory".

BNC's CRA performance in the state of Arizona is "Satisfactory".

BNC's CRA performance in the state of Minnesota is "Satisfactory".

In our borrower and geographic distribution analysis primary emphasis was placed on the bank's performance in the Bismarck and Phoenix AAs. These two AAs represent nearly 69% of BNC's business loans and nearly 86% of its HMDA loans originated/purchased during the evaluation period.

## Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

BNC's lending to businesses of different sizes and to residential real estate borrowers of different income levels is satisfactory.

### Bismarck AA

BNC's lending to businesses of different sizes and to residential real estate borrowers of different income levels in the Bismarck AA meets the standard for satisfactory performance.

### Borrower Distribution of Business Loans

BNC's lending to small businesses is reasonable. Sixty-five percent of the number and 50.2% of the dollar volume of loans are to businesses with revenues less than \$1 million compared to 63.5% of businesses in the AA having revenues under \$1 million. The following table depicts the bank's lending to small businesses compared to demographic data.

<b>Table 8: Borrower Distribution of Loans to Businesses in Bismarck AA</b>		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	63.5	5.2
% of Bank Loans in AA by #	65	35
% of Bank Loans in AA by \$	50.2	49.8

**Source: Loan sample; Dunn and Bradstreet data. \* 31.3% of AA businesses did not report revenue data.**

### **Borrower Distribution of Residential Real Estate Loans**

BNC’s borrower distribution of residential real estate loans is reasonable. The bank’s lending patterns are consistent with demographic data for moderate-income families. Although the bank exceeds the demographics for moderate-income levels for both home purchase and home improvement loans, more reliance is placed on home refinance given its high volume. Eighteen percent of home refinance loans are made to moderate-income borrowers while the demographics indicate that 18.5% families are moderate-income. The bank’s low level of lending to low-income individuals is mitigated by performance context factors. Nine percent of households in the AA are below the poverty level, leaving only a small portion of low-income borrowers who could qualify for a residential real estate loan. The following table displays the bank’s residential real estate lending patterns compared to the Bismarck AA demographic data.

<b>Table 8a: Borrower Distribution of Residential Real Estate Loans in Bismarck AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	17.4	12.9	18.5	19.0	27.27	18.1	36.8	36.2
Home Improvement	17.4	7.0	18.5	25.6	27.27	25.6	36.8	30.2
Home Refinance	17.4	4.0	18.5	17.7	27.27	21.7	36.8	48.0

*Source: Data reported under HMDA; U.S. Census data: 13.8% of HP, 11.6% of HI and 8.6% of HR loans reported by the bank listed income as NA.*

### **Phoenix AA**

BNC’s lending to businesses of different sizes and residential real estate borrowers of different income levels in the Phoenix AA meets the standard for satisfactory performance.

### **Borrower Distribution of Business Loans**

BNC’s lending to businesses of different sizes is reasonable. Lending to businesses with revenues under \$1 million is lower than the demographics of the AA for the number of loans

made, but exceeds the demographic comparator for the dollar volume of loans made to businesses with revenues under \$1 million. The following table illustrates the bank's borrower distribution of business loans in the AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	62.04	6.32
% of Bank Loans in AA by #	42.5	57.5
% of Bank Loans in AA by \$	73.05	26.95

Source: Loan sample; Dunn and Bradstreet data. \* 31.64% of AA businesses did not report revenue data.

### **Borrower Distribution of Residential Real Estate Loans**

BNC's residential real estate lending in the Phoenix AA is less than reasonable. Primary reliance is placed on home refinance loans as 66% of the Phoenix AA HMDA loans made in 2002 and 2003 were home refinance loans.

Lending to low-income and moderate-income borrowers, specifically for home refinance loans, is well below the demographics of the AA. Lending to low-income borrowers is non-existent for home improvement loans and minimal for home purchase loans. The table below displays the bank's residential real estate lending patterns compared to the Bismarck AA demographic data.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.6	1.6	18.8	17.2	21.8	20.3	39.8	53.1
Home Improvement	19.6	0.0	18.8	20.1	21.8	13.3	39.8	53.3
Home Refinance	19.6	3.9	18.8	9.8	21.8	20.1	39.8	53.9

Source: Data reported under HMDA; U.S. Census data: 7.8% of HP, 13.3% of HI and 12.3% of HR loans reported by the bank listed income as NA.

### **Minneapolis AA**

BNC's lending to businesses of different sizes and residential real estate borrowers of different income levels in the Minneapolis AA meets the standard for satisfactory performance.

### **Borrower Distribution of Business Loans**

BNC's Lending to small businesses in the Minneapolis AA is reasonable. Fifty-percent of the number and 39.5% of the dollar volume of loans are to businesses with revenues less than \$1 million compared to 61.8% of businesses in the AA having revenues under \$1 million. While

the bank's performance is less than the demographics of the AA, there are some performance context issues. The bank's Minneapolis branch is located in downtown Minneapolis. Many of its business customers are larger companies located, or with affiliate relationships, in downtown Minneapolis and are larger businesses. Secondly, while the number of loans made to businesses with revenues under \$1 million is reasonably close to the AA demographics the dollar amount of loans is not near as close. This is due to some large loans that were included in our sample. The following table illustrates the bank's lending to small businesses compared to demographic data.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	61.8	5.7
% of Bank Loans in AA by #	50.0	40.0
% of Bank Loans in AA by \$	39.5	60.2

Source: Loan sample; Dunn and Bradstreet data. \* 32.5% of AA businesses did not report revenue data, 10% of the number and .3% of the \$ volume of the bank's business loans did not report revenue data.

### **Borrower Distribution of Residential Real Estate Loans**

BNC's borrower distribution of residential real estate loans is reasonable. Primary reliance is placed on home improvement loans as 92% of the Minneapolis AA HMDA loans made in 2002 and 2003 were home improvement loans. This leaves only five home purchase loans and eight home refinance loans. Lending to moderate-income borrowers, specifically for home improvement loans, is more than reasonable as the bank's performance exceeds the demographics of the AA. Lending to low-income borrowers, given that 6% of the AA is below the poverty level, is reasonable. The table below displays the bank's residential real estate lending patterns compared to the Minneapolis AA demographic data.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	17.05	0.0	19.0	0.0	26.4	0.0	37.55	80.0
Home Improvement	17.05	11.4	19.0	21.0	26.4	35.2	37.55	32.4
Home Refinance	17.05	0.0	19.0	12.5	26.4	25.0	37.55	50.0

Source: Data reported under HMDA; U.S. Census data: 20% of HP and 12.5% of HR loans reported by the bank listed income as NA.

### **Rural North Dakota AA**



BNC’s performance for the Rural North Dakota AA exceeds the standard for satisfactory performance.

The borrower distribution analysis for the Rural North Dakota AA did not include business loans as the bank’s volume of business loans in the AA was not sufficient enough for an adequate sample.

**Borrower Distribution of Residential Real Estate Loans**

The bank’s level of residential real estate lending to low and moderate-income families exceeds the demographic data of the AA. Home Purchase, Home Improvement, and Home Refinance lending to moderate-income borrowers all exceed demographic data. Although the bank does not exceed or meet the demographic data for low-income lending, it is mitigated by the AA’s high poverty level of 15%. As mentioned earlier, it is difficult for families at the poverty level to qualify for a residential real estate loan. The following table depicts the bank’s real estate lending in the AA compared to demographic data.

<b>Table 11: Borrower Distribution of Residential Real Estate Loans in Rural ND AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21.2	26.0	20.8	22.2	24.5	29.6	33.5	14.8
Home Improvement	21.2	10.0	20.8	25.0	24.5	25.0	33.5	35.0
Home Refinance	21.2	4.2	20.8	37.5	24.5	33.3	33.5	20.8

*Source: Data reported under HMDA; U.S. Census data: 7.4% of HP, 5% of HI and 4.2% of HR loans reported by the bank listed income as NA.*

**Geographic Distribution of Loans**

BNC’s geographic distribution of business loans and residential real estate loans meets the standard for satisfactory performance.

**Bismarck AA**

BNC’s geographic distribution of loans in the Bismarck AA meets the standard for satisfactory performance.

**Business Loans**

The bank’s geographic distribution of business loans is reasonable. The Bismarck AA does not

have low-income tracts. The bank's lending to moderate-income tracts in 2003 exceeds the demographics of the AA. 2002 performance is not as high but still approaches 50% of the AA demographics. The following tables illustrate the bank's business loan lending in the AA.

<b>Table 12: 2002 Geographic Distribution of Loans to Businesses in Bismarck AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business	0.0	0.0	21.5	10.0	67.5	85.0	11.0	5.0

Source: Data obtained from loan sample; U.S. Census data.

<b>Table 12a: 2003 Geographic Distribution of Loans to Businesses in Bismarck AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business	0.0	0.0	22.5	25.0	69.7	70.0	7.75	5.0

Source: Data obtained from loan sample; U.S. Census data.

### Residential Real Estate Loans

The geographic distribution of residential real estate lending is not reasonable. The bank's performance does not meet the demographics of the AA in both 2002 and 2003. In 2002, the geographic distribution of residential real estate lending to borrowers located in moderate-income tracts is significantly below the 1990 demographic data. The bank's performance improves in 2003, but remains below the demographics of the AA. The following tables depict the bank's inability to meet the demographic data for 2002 and 2003.

<b>Table 12b: 2002 Geographic Distribution of Residential Real Estate Loans in Bismarck AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.0	0.0	20.3	2.0	64.7	71.4	15.1	26.6
Home Improvement	0.0	0.0	20.3	0.0	64.7	73.7	15.1	26.3
Home Refinance	0.0	0.0	20.3	2.56	64.7	67.95	15.1	29.49

Source: Data obtained from loan sample; U.S. Census data.

<b>Table 12c: 2003 Geographic Distribution of Residential Real Estate Loans in Bismarck AA</b>					
Census Tract Income Level	Low		Moderate	Middle	Upper

Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.0	0.0	19.6	10.45	69.1	59.7	11.3	29.85
Home Improvement	0.0	0.0	19.6	8.3	69.1	87.5	11.3	4.2
Home Refinance	0.0	0.0	19.6	6.7	69.1	75.0	11.3	18.3

Source: Data obtained from loan sample; U.S. Census data..

## Phoenix AA

BNC's geographic distribution of loans in the Phoenix AA meets the standard for satisfactory performance.

### Business Loans

The bank's geographic distribution of business loans is more than reasonable. Performance in 2002 exceeds the demographics of the AA for lending in both low- and moderate-income geographies. Performance in 2003 again exceeds the demographics for low-income geographies, but falls below the demographics for lending to moderate-income geographies. The following tables illustrate the bank's business lending patterns in 2002 and 2003.

<b>Table 13: 2002 Geographic Distribution of Loans to Businesses in Phoenix AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business	4.9	10.0	21.4	40.0	36.6	20.0	37.1	30.0

Source: Data obtained from loan sample; U.S. Census data.

<b>Table 13a: 2003 Geographic Distribution of Loans to Businesses in the Phoenix AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business	5.6	15.0	27.3	10.0	31.7	40.0	34.4	35.0

Source: Data obtained from loan sample; U.S. Census data.

### Residential Real Estate Loans

BNC's geographic distribution of residential real estate loans is not reasonable. Primary reliance

is placed on home refinance lending as it represents 65% of the total HMDA loans in the Phoenix AA for 2002 and 67% for 2003. The bank's lending to both low- and moderate-income tracts, especially in 2003, is well below the demographics of the AA. In 2003, only 1.7% of the bank's home refinance loans were made in the moderate-income tracts versus 24.6% of the owner occupied housing being located in moderate-income tracts. During 2003, no home purchase or home improvement loans were made in low- or moderate-income tracts. The following two tables illustrate BNC's geographic distribution lending performance.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	2.5	2.2	21.1	6.7	42.3	53.3	34.0	37.8
Home Improvement	2.5	0.0	21.1	0.0	42.3	50.0	34.0	50.0
Home Refinance	2.5	0.0	21.1	12.5	42.3	34.4	34	53.1

Source: Data obtained from loan sample; U.S. Census data.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.6	0.0	24.6	0.0	38.6	15.79	35.1	78.95
Home Improvement	1.6	0.0	24.6	0.0	38.6	22.2	35.1	77.8
Home Refinance	1.6	0.0	24.6	1.7	38.6	36.2	35.1	62.1

Source: Data obtained from loan sample; U.S. Census data. The bank reported income as NA for 5.26% of Purchase Money loans.

## Minneapolis AA

BNC's geographic distribution of loans in the Minneapolis AA does not meet the standard for satisfactory performance.

BNC's geographic distribution of business loans is not reasonable. The bank's combined performance for 2002 and 2003 does not meet the demographics of its AA. In 2002, no loans were made in the AA's low- and moderate-income tracts. Performance in 2003 is better as lending in the low-income tract exceeds the demographics but lending in moderate-income geographies falls below the demographics. The following two tables depict the bank's lending patterns to businesses in the AA.

<b>Table 14: 2002 Geographic Distribution of Loans to Businesses in the Minneapolis AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business	4.5	0.0	9.8	0.0	60.5	50.0	25.3	50.0

Source: Data obtained from loan sample; U.S. Census data.

<b>Table 14a: 2003 Geographic Distribution of Loans to Businesses in the Minneapolis AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business	3.8	5.0	16.3	10.0	54.5	55.0	25.4	30.0

Source: Data obtained from loan sample; U.S. Census data.

BNC's geographic distribution of residential real estate loans in the Minneapolis AA is reasonable. Primary reliance is placed on home improvement lending as it represents 90% of the total HMDA loans in the Minneapolis AA for 2002 and 90% for 2003. The bank's geographic distribution of home improvement is near the demographics of the AA for both 2002 and 2003. The bank's only branch in the Minneapolis AA during the evaluation period was located in downtown Minneapolis where there is limited residential lending. This makes it difficult for the bank to serve the moderate-income geographies in its AA. The following tables illustrate residential real estate lending compared to AA demographics.

<b>Table 14b: 2002 Geographic Distribution of Residential Real Estate Loans in the Minneapolis AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.7	0.0	11.5	0.0	63.3	100.0	23.4	0.0
Home Improvement	1.7	0.0	11.5	7.7	63.3	67.9	23.4	23.1
Home Refinance	1.7	0.0	11.5	0.0	63.3	75.0	23.4	25.0

Source: Data obtained from loan sample; U.S. Census data. The bank reported income as NA for 1.3% of Home Improvement loans.

<b>Table 14c: 2003 Geographic Distribution of Residential Real Estate Loans in Minneapolis AA</b>					
Census Tract Income Level	Low		Moderate	Middle	Upper

Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.5	0.0	14.5	0.0	58.0	0.0	25.9	0.0
Home Improvement	1.5	1.1	14.5	10.2	58.0	57.1	25.9	31.6
Home Refinance	1.5	0.0	14.5	25.0	58.0	50.0	25.9	25.0

Source: Data obtained from loan sample; U.S. Census data. No Home Purchase loans were made in 2003.

## Rural North Dakota AA

BNC's geographic distribution of loans in the Rural North Dakota AA does not meet the standard for satisfactory performance.

The geographic distribution analysis for the Rural North Dakota AA did not include business loans as the bank's volume of business loans was not sufficient for an adequate sample.

### Residential Real Estate Loans

The bank's geographic distribution of residential real estate loans is not reasonable. BNC's geographical distribution of loans throughout the rural North Dakota AA does not meet the demographics of the AA.

BNC's volume of HMDA loan in the rural North Dakota AA was limited in 2002. 2003 volume represented nearly 72% of the bank's HMDA loans made in the AA during 2002 and 2003. During 2003, the bank made 5.9% of its home purchase loans, 0% of its home improvement loans, and 5.3% of its home refinance loans in moderate-income tracts. This is well below the percentage of owner-occupied housing units located within moderate-income tracts. The following tables display the bank's residential real estate lending in the Rural North Dakota AA.

Table 15: 2002 Geographic Distribution of Residential Real Estate Loans in Rural ND AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.7	0.0	10.1	20.0	84.7	80.0	4.5	0.0
Home Improvement	0.7	0.0	10.1	0.0	84.7	60.0	4.5	40.0
Home Refinance	0.7	0.0	10.1	0.0	84.7	100.0	4.5	0.0

Source: Data obtained from loan sample; U.S. Census data.

Table 15a: 2003 Geographic Distribution of Residential Real Estate Loans in Rural ND AA					
Census Tract Income Level	Low		Moderate	Middle	Upper

Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.0	0.0	10.7	5.9	77.3	88.2	12.0	5.9
Home Improvement	0.0	0.0	10.7	0.0	77.3	86.7	12.0	13.3
Home Refinance	0.0	0.0	10.7	5.26	77.3	78.9	12.0	15.8

*Source: Data obtained from loan sample; U.S. Census data.*

### **Responses to Complaints**

BNC has not received any CRA related complaints since our last examination.

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

We found no evidence of illegal discrimination or other illegal credit practices.