



PUBLIC DISCLOSURE

August 29, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American Federal Bank
Charter Number 702983

215 North Fifth Street
Fargo, ND 58102

Office of the Comptroller of the Currency

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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.

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INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.**The Lending Test is rated: Satisfactory.****The Community Development Test is rated: Satisfactory.**The major factors supporting the institution's rating include:¹

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and in comparison to other similarly situated banks.
- The bank originates a substantial majority of its loans to borrowers located within its designated assessment areas (AAs).
- A reasonable distribution of loans among borrowers of different income levels.
- An reasonable geographic dispersion of loans throughout the bank's AAs.
- Reasonable responsiveness to community development needs through qualified loans, and services.

Scope of Examination

We evaluated American Federal Bank's (American Federal) Community Reinvestment Act (CRA) performance utilizing intermediate small bank performance standards. We conducted a full-scope review for each of the bank's four AAs. The lending test analysis is based on the bank's primary loan products for the period January 1, 2014 through June 30, 2016. The evaluation period for community development (CD) activity is June 30, 2013 through June 30, 2016. The following table depicts the volume of loans made during the evaluation period:

<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Agricultural Loans	50%	52%
Home Mortgage Loans	8%	6%
Commercial Loans	32%	40%
Consumer Loans	10%	2%

Source: Bank Loan Origination Report

For purposes of this evaluation, we determined the bank's primary loan products to be agricultural loans for all four AAs as well as commercial loans in two of the bank's AAs. Together these loan types represented 82 percent of loans by volume and 92 percent of loans by dollar amount.

We conducted sampling of agricultural loans and commercial loans to assess the bank's performance in the different AAs. Our sampling included a total of 120 loans, which

¹ The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states and multistate metropolitan areas.

consisted of 20 agricultural loans from each of the bank's four AAs and 20 commercial loans from each of the two AAs in which commercial loans were a primary product.

Description of Institution

American Federal is a \$553 million federally chartered stock savings association with a corporate office located in Fargo, North Dakota. The bank is wholly owned by American Federal Corporation, a one-bank holding company. American Federal currently operates 13 branch offices throughout the Red River Valley in eastern North Dakota and northwestern Minnesota. The North Dakota branch office locations include two branches in Fargo and one branch each in Grand Forks, Northwoods, and Wahpeton. The Minnesota branch office locations include one branch each in Crookston, Ada, Moorhead, Warren, Hallock, Fergus Falls, Fosston, and East Grand Forks.

American Federal offers a variety of loan and deposit products and services with a focus on agricultural lending. The agricultural industry dominates lending opportunities as several branch offices are located in rural areas. The bank has seen an increase in commercial loan activity over the past few years. The bank also originates a moderate volume of residential mortgage loans in which they sell a number of those loans to the secondary market.

The following table illustrates the bank's loan portfolio composition as of June 30, 2016:

Loan Portfolio Composition	\$000	%
Agricultural	\$236,563	50.63%
Commercial	\$126,767	27.13%
Residential Real Estate	\$96,387	20.63%
Consumer	\$7,512	1.61%
Total Loans	\$467,229	100%

Source: June 30, 2016 Call Report Data

We did not identify any financial, legal, or other factors that would impede the bank's ability to serve the credit needs of its AAs. American Federal received a "Satisfactory" rating during the previous CRA evaluation dated August 20, 2013.

Selection of Areas for Full-Scope Review

In each state and multistate metropolitan area where the bank has an office, a sample of AAs within that state/multistate metropolitan area was selected for full-scope reviews. Refer to the "Scope" section under each State and Multistate Metropolitan Area Rating section for details regarding how the areas were selected.

American Federal has four AAs, including the Fargo-Moorhead, ND-MN Multistate MSA (MMSA); Grand Forks, ND-MN MMSA; Minnesota Non-MSA; and North Dakota Non-MSA. We selected all four AAs for full-scope review

Ratings

The bank's overall rating is a blend of the multistate metropolitan area ratings and state ratings. The Grand Forks MMSA was given the most weight in determining the overall rating followed by the Fargo-Moorhead MMSA and then the Minnesota non-MSA. The North Dakota MMSA received the least weight in determining the bank's overall rating. We determined weighting of the AAs based on each rated area's representation of the bank's overall deposits and loan origination as well as the number of branches in each AA.

The institution's CRA rating takes into account the ratings in different states/multistate metropolitan areas by considering:

- The significance of the bank's activities in each state/multistate metropolitan area compared with the bank's overall activities.
- The lending opportunities in each state/multistate metropolitan area.
- The importance of the bank in providing loans to each state/multistate metropolitan area, particularly in light of the number of other institutions and the extent of their activities in each state/multistate metropolitan area.
- Demographic and economic conditions in each state/multistate metropolitan area.

Conclusions with Respect to Performance Criteria

American Federal's performance under the Lending Test is Satisfactory. American Federal's loan-to-deposit (LTD) ratio is more than reasonable and a substantial majority of the bank's loans were originated inside the designated AAs. The bank's lending activity reflects reasonable distribution among farms and businesses of different sizes when compared to aggregate lending data. The geographic distribution of loans reflects adequate distribution throughout the bank's AAs.

Loan-to-Deposit Ratio

American Federal's LTD ratio is more than reasonable given the bank's size, financial condition, and in comparison to other similarly situated banks. Similarly situated banks include those operating in and around the bank's AAs and ranging in asset size from \$330 million to \$620 million. The bank's average LTD ratio from June 30, 2013 to June 30, 2016 was 116.30 percent. The LTD ratio ranged from a quarterly high of 133.33 percent to a quarterly low of 97.93 percent during this period. The table below illustrates the LTD ratios among similarly situated banks within the bank's AA.

Average Loan-to-Deposit Ratio (6/30/16)	Headquarters	Total Assets (\$000s)	Average LTD Ratio
Institution			
Midwest Bank #9737 (Fargo & MN AA)	Detroit Lakes, MN	337,397	98.28%
Border State Bank #15684 (MN AA)	Greenbush, MN	345,804	81.99%
BlackRidge Bank #58580 (Fargo AA)	Fargo, ND	356,538	91.66%
American Federal Bank #29140 (Fargo AA)	Fargo, ND	552,991	116.30%
Bank Forward #8941 (GF AA)	Hannaford, ND	480,627	94.20%
Western State Bank #9123 (Fargo AA)	Devils Lake, ND	619,836	92.11%

Source: Call Report Data June 30, 2016

Lending in Assessment Area

American Federal originates a substantial majority of its loans to borrowers located within its designated AAs. The bank originated 87 percent of loans by number and 82 percent of loans by dollar volume within it's AA. The following table illustrates the number and dollar amount of loans originated inside and outside the bank's AAs:

Lending in American Federal's AAs										
	Number of Loans					Dollars of Loans (000s)				
Loan Type	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	32	80.00	8	20.00	40	9,841	69.26	4,368	30.74	14,209
Agricultural	72	90.00	8	10.00	80	19,246	89.98	2,144	10.02	21,390
Totals	104	86.67	16	13.00	120	29,087	81.71	6,512	18.29	35,599

Source: Loan Sample

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 195.28(c), in determining a Federal Savings Association's (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any assessment area by an affiliate whose loans have been considered as part of the FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

Multistate Metropolitan Area Rating

Grand Forks, ND-MN MMSA

CRA Rating for the Grand Forks MMSA²: Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting the institution's multistate metropolitan rating include:

- Reasonable distribution of loans to borrowers of different incomes.
- Excellent geographic dispersion of loans throughout the AA.
- Reasonable responsiveness to community development needs through community development loans, qualified investments, and services.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE GRAND FORKS MMSA

The Grand Forks AA consists of the entire Grand Forks, ND-MN MSA, a multi-state MSA located in northwestern Minnesota and eastern North Dakota. The Grand Forks, MMSA includes all of Polk County in Minnesota and Grand Forks County in North Dakota. The bank has five branches within the AA, including one in Grand Forks, one in Northwood in North Dakota, and three in the Minnesota communities of Crookston, Fosston, and East Grand Forks. The AA meets the regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The following tables show 2010 U.S. Census demographic and economic information for the Grand Forks MMSA.

²This rating reflects performance within the multistate metropolitan area. The statewide evaluations do not reflect performance in the parts of those states contained within the multistate metropolitan area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE GRAND FORKS, ND-MN MSA AA (2010)	
Population	
Number of Families	22,957
Number of Households	39,023
% of Low-Income Families	19.55
% of Moderate-Income Families	18.31
% of Middle-Income Families	24.20
% of Upper-Income Families	37.94
Geographies	
Number of Census Tracts	28
% Low-Income Census Tracts	3.57
% Moderate-Income Census Tracts	17.86
% Middle-Income Census Tracts	67.86
% Upper-Income Census Tracts	10.71
Median Family Income (MFI)	
2010 MFI for AA	\$64,258
2016 FFIEC Est. MSA/MD MFI	\$69,400
Economic Indicators	
July 2016 Unemployment Rate	3.0%
2010 Median Housing Value	\$127,851
% of Households Below Poverty Level	16%

Source: 2010 U.S. Census data with updated information when available

Competition from other financial institutions in the AA is strong. Per the June 30, 2015 FDIC Deposit Market Share Report, the top four financial institutions based on market share (Alerus Financial, Bremer Bank, US Bank, Frandsen Bank & Trust) accounted for 58.93 percent of the market share within the AA. American Federal ranked eighth in deposit market share among 21 financial institutions. The bank had just over \$125 million in deposits, representing a deposit market share of 4.85 percent.

Economic activity in the AA is centered on the services, agriculture, and retail trade industries. The major employers within the AA are the University of North Dakota (UND), Grand Forks U.S. Air Force Base, and Altru Health System.

We reviewed a recent community contact interview conducted as part of a CRA evaluation for another local financial institution. Community contact information was used to gain an understanding of the local economic conditions as well as identify the credit needs and perceived performance of financial institutions within the AA. The contact stated the current economic condition in Grand Forks is good. The City of Grand Forks is growing as more residents move in to the city. Grand Forks has a mix of agricultural, industrial, education (UND) and aerospace. Local financial institutions have funded numerous new multi-family units in the past years. The community contact also stated that banks in North Dakota are very reluctant to fund Community Land Trusts and felt there was a lot of opportunity to fund these projects and provide affordable housing for the long term. The contact stated that banks have a good reputation in the

community. The contact also mentioned that banks are aggressive in looking for investment opportunities and loan underwriting standards have loosened.

SCOPE OF EVALUATION IN GRAND FORKS MMSA

American Federal has only one AA in the Grand Forks MMSA rated area which consists of the entire MSA. As such, we conducted a full-scope review of the Grand Forks MMSA AA and there were no AAs receiving limited-scope reviews. Ratings are based entirely on the results of the bank’s performance in the Grand Forks MMSA AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE GRAND FORKS MMSA

American Federal’s CRA performance in the Grand Forks MMSA is Satisfactory. The bank’s performance is satisfactory under both the lending test and the community development test.

LENDING TEST

The bank’s performance under the lending test in Grand Forks MMSA is Satisfactory.

Borrower Distribution of Agricultural Loans

The distribution of agricultural loans reflects reasonable penetration among farms of different sizes in 2014 - 2015. The number of loans to farms with revenues less than or equal to a million dollars is near the performance of aggregate lenders. While the dollar volume of loans to farm with revenues of less than or equal to one million dollars is below the performance of aggregate lenders, this number was skewed by two large loans in our sample and does not reflect the bank’s actual performance. The following table illustrates American Federal’s lending to farms of different sizes:

2015 Borrower Distribution of Loans to Farms in Grand Forks MMSA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	96.83%	2.52%	0.65%	100%
Aggregate Lending data	58.29%	41.71%	0.00%	100%
% of Bank Loans in AA by #	55.00%	45.00%	0.00%	100%
% of Bank Loans in AA by \$	22.16%	77.84%	0.00%	100%

Source: Loan Sample; 2015 Peer Data; 2015 Business & Geodemographic Data

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the AA. The AA is made up of three upper-income census tracts, 19 middle-income census tracts, five moderate-income census-tracts, and one low-income census tract. Our

analysis focused on lending in moderate-income census tracts given the low number of low-income census tracts.

Geographic Distribution of Agricultural Loans

The geographic distribution of agricultural loans reflects excellent dispersion throughout the AA. The bank did not make any agricultural loans in low-income tracts, however this is in line with aggregate lending data. Loans made by the bank in moderate-income census tracts exceeds both the percentage of AA farms and aggregate lending data:

2015 Geographic Distribution of Loans to Farms in Grand Forks MMSA				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Farms	0.19%	12.04%	81.89%	5.88%
Aggregate Lending Data	0.00%	3.13%	90.78%	6.09%
% of Number of Bank Loans	0.00%	25.00%	65.00%	10.00%

Source: Loan Sample; 2015 Peer Data; 2015 Business Geodemographic Data

Responses to Complaints

The bank has not received any complaints regarding its CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test in the Grand Forks MMSA is rated Satisfactory.

Number and Amount of Community Development Loans

During the review period, the bank made one qualified community development loan totaling \$2.2 million. The purpose of the loan was to develop an affordable housing apartment building in Grand Forks, ND.

Number and Amount of Qualified Investments

During the review period, American Federal made two qualified donations to two organizations supporting economic development and community services for low- and moderate-income individuals in the area. These donations totaled approximately \$90 and supported organizations, including Loaves and Fishes Food Shelf and Sox for Kids.

Extent to Which the Bank Provides Community Development Services

During the review period, three bank employees served on four different community development organizations in the area. Below are examples of this activity.

- One employee serves as the Vice President of the Crookston Chamber of Commerce which promotes small business and economic development in the area.
- One employee serves as the Treasurer for the Polk County Development Authority Center which promotes and supports LMI individuals with disabilities to acquire, improve, and maintain quality of life.
- One employee serves as the Treasurer for the Special Olympics of ND and provides budget support for the programs that assist LMI individuals, and this employee also serves on the Altru Corporate Board of Directors which assists LMI individuals with access to needed medical services.

Responsiveness to Community Development Needs

American Federal demonstrated adequate responsiveness to community development needs in its AA considering the bank's capacity and the need and availability for community development in the bank's AAs. Specifically the bank's \$2.2 million community investment loan helped to provide the community with affordable housing which is an identified need. While overall responsiveness was adequate, the bank's community development investment activity of just \$90 of donations was not adequately responsive to community needs. The Grand Forks MMSA has a significant number of organizations to which the bank could have made more qualified community development donations.

We also noted that during the review period, one of the bank's branches was located in moderate-income census tracts. This branch helped increased access and availability of bank services to the low- and moderate-income population.

Multistate Metropolitan Area Rating

Fargo-Moorhead, ND-MN MMSA

CRA Rating for the Fargo-Moorhead MMSA³: Needs to Improve.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Needs to Improve.

The major factors supporting the institution's multistate metropolitan rating include:

- Reasonable loan distribution among borrowers of different income levels.
- Adequate geographic dispersion of loans throughout the AA.
- Poor responsiveness to community development needs through community development loans, qualified investments, and services.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN FARGO-MOORHEAD MSA

The Fargo-Moorhead AA includes the entire MSA which consists of Cass County in North Dakota and Clay County in Minnesota. The bank has three branches within the AA, including its main office in downtown Fargo, ND. The other branches are located in South Fargo, ND and Moorhead, MN. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The following tables show 2010 U.S. Census demographic and economic information for the Fargo-Moorhead MSA.

³This rating reflects performance within the multistate metropolitan area. The statewide evaluations do not reflect performance in the parts of those states contained within the multistate metropolitan area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE FARGO-MOORHEAD, MN-ND MMSA (2010)	
Population	208,777
Number of Families	48,919
Number of Households	84,600
% of Low-Income Families	18.15
% of Moderate-Income Families	17.92
% of Middle-Income Families	24.84
% of Upper-Income Families	39.09
Geographies	
Number of Census Tracts	46
% Low-Income Census Tracts	4.35
% Moderate-Income Census Tracts	15.21
% Middle-Income Census Tracts	60.87
% Upper-Income Census Tracts	19.57
Median Family Income (MFI)	
2010 MFI for AA	\$67,695
2016 FFIEC Est. MSA/MD MFI	\$73,200
Economic Indicators	
July 2016 Unemployment Rate	2.3%
2010 Median Housing Value	\$146,683
% of Households Below Poverty Level	14%

Source: 2010 U.S. Census data with updated information when available

Competition in the market area is strong. There are numerous financial institutions competing for products and services in the area, both local and non-local. According to the June 30, 2015 FDIC Deposit Market Share Report, the top four financial institutions based on market share (Bell State Bank & Trust, Wells Fargo Bank NA, US Bank NA, and Gate City Bank) comprise 64.16 percent of the deposit market share within the AA. Thus, there is no one dominant leader and the resulting competition for deposits is strong. American Federal ranks 11th out of 27 institutions in the market. American Federal had just over \$110 million in deposits, representing a deposit market share of 1.67 percent.

In general, the current economy in North Dakota is growing and has maintained a very low unemployment rate of 3.1 percent as of August 2016, which is well below the national average of 4.9 percent. The economy in Fargo is diversified with agriculture, food processing, manufacturing, technology, health care facilities, and three area Universities. The three Universities provide a large student population which helps increase retail sales and part-time jobs.

We contacted two community members to gain a better understanding of community credit needs and opportunities. Community members noted that the economy in North Dakota and specifically the Fargo-Moorhead area, has growing since the early 2000s. The strong economy was originally boosted primarily by the oil production in the Bakken Formation in Western North Dakota. Both contacts noted there are a large number of

financial institutions located in the immediate and surrounding areas. Both community members stated the local financial institutions were meeting the needs of the community. One opportunity for lending that was noted was the lending programs sponsored by the Greater Fargo-Moorhead Economic Development Corporation. One such program is the Partnership in Assisting Community Expansion (PACE) program which helps communities expand their economic base by providing new job development. The Bank of North Dakota acts as a participant and guarantor on the loans.

SCOPE OF EVALUATION IN FARGO-MOORHEAD MMSA

American Federal has only one AA in the Fargo-Moorhead MMSA rated area, consisting of the entire MSA. As such, we conducted a full-scope review of the Fargo-Moorhead MMSA and there were no AAs receiving limited-scope reviews in the rated area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN FARGO-MOORHEAD MMSA

American Federal's CRA performance in the Fargo-Moorhead MMSA needs to improve. The bank's performance is satisfactory under the lending test and needs to improve under the community development test.

LENDING TEST

The bank's performance under the lending test in the Fargo-Moorhead MMSA is Satisfactory.

Borrower Distribution of Agricultural Loans

The distribution of agricultural loans reflects adequate distribution among farms of different sizes in 2014 - 2015. The number and amount of bank loans to farms with revenues less than or equal to a million dollars is somewhat lower than the performance of aggregate lenders and is somewhat lower than the area demographics. We discussed the high percentage of AA farms with revenues under one million dollars with a banker, and he informed us that the reason that the percentage of AA farms with revenues under one million dollars is so high is that census data includes all "farms" with revenues of at least one thousand dollars. This results in the inclusion of individuals with personal gardens to sell produce at farmers markets or road-side stands. Inclusion of such small operations skews farm census data resulting in an extremely high percentage of farms with revenues of less than one million dollars. The following table illustrates American Federal's lending to farms of different sizes:

2015 Borrower Distribution of Loans to Farms in Fargo-Moorhead MMSA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.45%	1.58%	0.97%	100%
Aggregate Lending data	54.53%	45.47%	0.00%	100%
% of Bank Loans in AA by #	40.00%	60.00%	0.00%	100%
% of Bank Loans in AA by \$	26.67%	73.33%	0.00%	100%

Source: Loan Sample, 2015 Peer Data, 2015 Business & Geodemographic Data

Borrower Distribution of Commercial Loans

The distribution of business loans reflects good distribution among businesses of different sizes in 2014 – 2015. The number of bank loans to businesses with revenues less than or equal to one million dollar exceeds the performance of aggregate lenders and is in line with the area demographics. The dollar amount of loans to businesses with revenues less than or equal to one million dollars is near or equal to the performance of aggregate lenders and is somewhat lower than area demographics. The following table illustrates American Federal’s lending to businesses of different sizes:

2015 Borrower Distribution of Loans to Businesses in Fargo-Moorhead MMSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74.84%	6.80%	18.36%	100%
Aggregate Lending data	42.73%	57.27%	0.00%	100%
% of Bank Loans in AA by #	70.00%	30.00%	0.00%	100%
% of Bank Loans in AA by \$	49.68%	50.32%	0.00%	100%

Source: Loan Sample, 2015 Peer Data, 2015 Business & Geodemographic Data

Geographic Distribution of Loans

The geographic distribution of loans reflects adequate dispersion throughout the AA. The AA is made up of nine upper-income census tracts, 28 middle-income census tracts, seven moderate-income census tracts, and two low-income census tracts. Our analysis focused on lending in moderate-income census tracts given the low number of low-income census tracts in the AA.

Geographic Distribution of Agricultural Loans

The geographic distribution of agricultural loans is adequate. The bank did not originate any agricultural loans in the low-income tracts, but loans originated in moderate-income tracts exceeds aggregate lending data and the percentage of AA farms in moderate-income tracts. The AA has just two low-income census tracts which are both located in a more urban area of Fargo. As a result, we would not expect to see a high number of farms operating in those census tracts. The following tables shows the geographic distribution of farm loans in the Fargo-Moorhead MMSA:

2015 Geographic Distribution of Loans to Farms in Fargo-Moorhead MMSA				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Farms	0.26%	4.83%	74.71%	20.19%
Aggregate Lending Data	0.70%	2.11%	80.06%	17.13%
% of Number of Bank Loans	0.00%	5.00%	70.00%	25.00%

Source: Loan Sample; 2015 Peer Data; 2015 Business Geodemographic Data

Geographic Distribution of Commercial Loans

The geographic distribution of commercial loans is adequate. The bank did not originate any businesses loans in low-income tracts, but loans originated in moderate-income tracts is near to or equal aggregate lending data and the percentage of AA businesses in moderate-income tracts. As noted above, there are only two low-income census tracts in the AA. The following tables shows the geographic distribution of commercial loans in the Fargo-Moorhead MMSA:

2015 Geographic Distribution of Loans to Businesses in Fargo-Moorhead MMSA				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Businesses	3.35%	20.19%	52.06%	24.39%
Aggregate Lending Data	2.87%	24.95%	45.20%	26.97%
% of Number of Bank Loans	0.00%	25.00%	45.00%	30.00%

Source: Loan Sample; 2015 Peer Data; 2015 Business Geodemographic Data

Responses to Complaints

The bank has not received any complaints regarding its CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test in the Fargo-Moorhead MMSA is rated Needs to Improve.

Number and Amount of Community Development Loans

During the review period, the bank made one qualified community development loan totaling \$2.6 million. This included a loan for a senior housing apartment building in Fargo, ND which employs several LMI individuals.

Number and Amount of Qualified Investments

During the review period, the bank did not make any qualified donations to area organizations.

Extent to Which the Bank Provides Community Development Services

During the review period, six bank employees served on two different organizations providing community development services in the AA, including community services for low- and moderate-income individuals and economic development. Below are several examples of these activities.

- Five employees volunteered with Junior Achievement to teach elementary age school children about money, saving, and financial skills.
- Two employees were guest speakers at local colleges to teach college students about banking concepts.

Responsiveness to Community Development Needs

American Federal is not adequately responsive to community development needs through community development loans, investments, and services. While the bank made one community development loan totaling \$2.6 million to develop senior housing that employs LMI during the review period, this was not a significant community need identified by the community contacts. While six employees provided community development services in the AA during the review period, the bank is headquartered in the Fargo-Moorhead MMSA and has a significant number of employees in the AA. Further, the bank did not make any qualified investments in the AA despite the numerous opportunities that are available in the AA to make qualified donations.

We also noted that the bank operates a branch in Moorhead, MN which is located in a moderate-income census tract. The branch helped increase the availability of bank services to low- and moderate-income individuals.

State Rating

State of Minnesota

CRA Rating for Minnesota⁴: Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting the institution's state rating include:

- Reasonable borrower distribution of loans to farms of different sizes.
- Reasonable borrower distribution of loans to borrowers of different incomes.
- Adequate geographic dispersion of loans throughout the AA.
- Reasonable responsiveness to community development needs through community development loans, qualified investments, and services.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN MINNESOTA

American Federal has operations in five non-MSA counties in northwestern Minnesota, including Wilkin, Norman, Marshall, Kittson, and Otter Tail. The bank has four branches in this rated area in the towns of Ada, Fergus Falls, Hallock, and Warren. The AA is predominately rural; however, the AA does border the MMSA AAs of Grand Forks and Fargo. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The following tables show 2010 U.S. Census demographic and economic information for the Minnesota Non-MSA AA. There are no low-income tracts in the AA.

⁴This rating reflects performance within the Minnesota Non-MSA. For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE MINNESOTA NON-MSA AA (2010)	
Population	
Number of Families	24,705
Number of Households	36,454
% of Low-Income Families	19.69
% of Moderate-Income Families	19.94
% of Middle-Income Families	23.45
% of Upper-Income Families	36.92
Geographies	
Number of Census Tracts	28
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	7.14
% Middle-Income Census Tracts	89.29
% Upper-Income Census Tracts	3.57
Median Family Income (MFI)	
2010 MFI for AA	\$55,324
2016 FFIEC Est. MSA MFI	\$63,800
Economic Indicators	
2015 Avg. Unemployment Rate	5.24%
2010 Median Housing Value	\$144,399
% of Households Below Poverty Level	12%

Source: 2010 U.S. Census data with updated information when available

Competition from other financial institutions in the AA is strong. The top four financial institutions in terms of market share (United Community Bank, Bremer Bank, Wells Fargo, Bank of the West) represent only 34 percent of total deposits and the market leader has only a eleven percent share of the market. As of June 30, 2015, American Federal ranked tenth in deposit market share among 30 financial institutions. American Federal had just over \$252 million in deposits, representing a deposit market share of 4.17 percent.

Economic activity in the AA is centered in the services and agriculture industries. Based on the 2016 Business Demographic Data, the services industry comprises 37 percent of activity, followed by agriculture at 19 percent of activity.

We contacted one community member to gain a better understanding of community credit needs and opportunities. The community member noted that the economy in Ottertail County, and specifically the Fergus Falls area, has been relatively stable over the past few years. Various city and community organizations are planning for, and developing new ways to attract new residents to the local area. There are multiple programs offered in the community to help lower income families. The community contact stated the biggest obstacle for the area was the close proximity to the Fargo/Moorhead area, and a lot of community residents were moving toward the larger cities. Another obstacle for the community is the aging population as the city has

struggled to attract or retain younger residents. The community contact stated the local institutions were meeting the needs of the community.

SCOPE OF EVALUATION IN MINNESOTA

American Federal has only one AA in the MN Non-MSA rated area. As such, we conducted a full-scope review of the AA, and the ratings are based entirely on the results of this area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MINNESOTA

American Federal’s CRA performance in the State of Minnesota is Satisfactory. The bank’s performance under both the lending test and the community development test is satisfactory.

LENDING TEST

The bank’s performance under the lending test in Minnesota is rated Satisfactory.

Borrower Distribution of Agricultural Loans

The distribution of agricultural loans reflects adequate penetration among farms of different sizes. The number of bank loans to farms with revenues less than or equal to one million is somewhat lower than the performance of aggregate lenders. The dollar amount of bank loans to farms with revenues of less than one million dollar is lower than the performance of aggregate lenders, but was skewed by one large loan in our sample. The following table illustrates American Federal’s lending to farms of different sizes:

2015 Borrower Distribution of Loans to Farms in MN Non-MSA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.79%	1.21%	0.00%	100%
Aggregate Lending data	67.26%	32.74%	0.00%	100%
% of Bank Loans in AA by #	65.00%	35.00%	0.00%	100%
% of Bank Loans in AA by \$	38.32%	61.68%	0.00%	100%

Source: Loan Sample; 2015 Peer Lending Data; 2015 Business Geodemographic Data

Borrower Distribution of Commercial Loans

The distribution of business loans reflects excellent penetration among businesses of different sizes in 2014-2015. The number of bank loans to businesses with revenues less than or equal to one million dollar exceeds the performance of aggregate lenders and area demographics. The dollar amount of loans to businesses with revenues less than or equal to one million dollars is near or equal to the performance of aggregate

lenders. The following table illustrates American Federal’s lending to businesses of different sizes:

2015 Borrower Distribution of Loans to Businesses in MN Non-MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	80.00%	20.00%	0.00%	100%
Aggregate Lending data	50.15%	49.85%	0.00%	100%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100%
% of Bank Loans in AA by \$	49.80%	50.20%	0.00%	100%

Source: Loan Sample; 2015 Peer Lending Data; 2015 Business Geodemographic Data

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. There are no low-income tracts within the AA so our analysis focused on the bank’s performance in the moderate-income tracts.

Geographic Distribution of Agricultural Loans

The geographic distribution of agricultural loans reflects poor penetration throughout the AA when compared to both aggregate lenders and area demographics. The bank did not originate any loans in low- or moderate-income census tracts. The following table shows the distribution of agricultural loans among farms of different sizes:

2015 Geographic Distribution of Loans to Farms in MN Non-MSA				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Farms	0.00%	3.11%	91.87%	5.01%
Aggregate Lending Data	0.00%	1.97%	96.44%	1.59%
% of Number of Bank Loans	0.00%	0.00%	45.00%	55.00%

Source: Loan Sample; 2015 Peer Lending Data; 2015 Business Geodemographic Data

Geographic Distribution of Commercial Loans

The geographic distribution of commercial loans reflects reasonable dispersion throughout the AA when compared to both aggregate lenders and area demographics. Loans originated in moderate-income census tracts exceeds aggregate lending data and the percentage of AA businesses in moderate-income census tracts.

2015 Geographic Distribution of Loans to Businesses in MN Non-MSA				
Census Tract Income Level	Low	Moderate	Middle	Upper
% of AA Businesses	0.00%	13.56%	83.74%	2.71%
Aggregate Lending Data	0.00%	14.74%	83.67%	1.59%
% of Number of Bank Loans	0.00%	15.00%	70.00%	15.00%

Source: Loan Sample; 2015 Peer Lending Data; 2015 Business Geodemographic Data

Responses to Complaints

The bank has not received any complaints regarding its CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in Minnesota is rated Satisfactory.

Number and Amount of Community Development Loans

During the review period, the bank made 14 qualified loans totaling \$3.9 million. The loans supported community development through economic development and area revitalization/stabilization efforts. These loans included:

- 12 FSA guaranteed loans totaling \$3.6 million that were made in distressed and underserved areas that helped to create and retain jobs in these areas for farmers who are either beginning farmers or who cannot qualify for traditional bank financing.
- One SBA guaranteed loans totaling \$388 thousand that supported economic development by creating/retaining/improving jobs for low- and moderate-income individuals or in moderate-income areas or in areas designated as distressed and/or underserved.

Number and Amount of Qualified Investments

During the review period, the bank did not make any qualified donations to area organizations supporting community services for low- and moderate- income individuals.

Extent to Which the Bank Provides Community Development Services

During the review period, four bank employees served on eight different area organizations that either provide needed community services to low- and moderate-income individuals or that promote economic development. Examples of these activities include:

- One employee serves as a board member of the Warren Chamber of Commerce which promotes small business and economic development in Warren, an underserved area.
- One employee serves as the treasurer for the Warren One Fund, an organization that provides funding to various charities in the area.
- One employee serves as Board Vice President and Secretary of a local YMCA where they are involved in fundraising and advising on budget issues for the organization which uses funding to target low- and moderate-income youth services.

- One employee serves as the Treasurer for the Backcourt Club of Fergus Falls which assists LMI individuals attend local basketball camps.
- One employee served on the Board of Directors for a LITC housing project in Warren.

Responsiveness to Community Development Needs

American Federal demonstrated adequate responsiveness to community development needs in its AA through community development loans and services. While overall responsiveness was adequate, the bank's community development investment activity was not adequately responsive to community needs. The MN Non-MSA has a significant number of organizations to which the bank could have made qualified community development donations.

We also noted that during the review period, the bank operated two branches in areas considered underserved due to their rural and remote nature. Operating branches in these communities can be seen as helping to stabilize the underserved areas by meeting essential community needs.

State Rating

State of North Dakota

CRA Rating for North Dakota⁵: Needs to Improve.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Needs to Improve.

The major factors supporting the institution's state rating include:

- Good distribution of loans to farms of different sizes.
- Very poor responsiveness to community development needs through community development loans, qualified investments, and services.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NORTH DAKOTA

American Federal has one branch location in Wahpeton, North Dakota which is located approximately 60 miles south of Fargo in Richland County, a non-MSA county. The branch is located very close to the Minnesota border and thus serves the MN Non-MSA county of Wilkin. However, we included Wilkin county in the MN Non-MSA AA given that an AA may not extend significantly beyond a state boundary.

The following tables show 2010 U.S. Census demographic and economic information for the State of North Dakota Non-MSA AA.

⁵This rating reflects performance within the North Dakota Non-MSA. For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE ND Non-MSA AA (2010)	
Population	16,321
Number of Families	4,153
Number of Households	6,517
% of Low-Income Families	14.84
% of Moderate-Income Families	18.35
% of Middle-Income Families	21.45
% of Upper-Income Families	45.36
Geographies	
Number of Census Tracts	6
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	66.67
% Upper-Income Census Tracts	33.33
Median Family Income (MFI)	
2010 MFI for AA	\$58,592
2016 FFIEC Est. MSA MFI	\$73,500
Economic Indicators	
2015 Unemployment Rate	2.5%
2010 Median Housing Value	\$97,476
% of Households Below Poverty Level	12%

Source: 2010 U.S. Census data with updated information when available

This AA represents the smallest dollar volume of deposits and loan origination activity. As such, this AA received the least weighting in determining the overall bank rating. There are numerous financial institutions competing for products and services in the area, both local and non-local. According to the June 30, 2015 FDIC Deposit Market Share Report, the top four (Wells Fargo, Bank of the West, Lincoln State Bank, and Bell State Bank) comprise 68.9 percent of the deposit market share within the AA. The bank is ranked ninth out of the nine institutions. American Federal had just over \$16 million in deposits, representing a deposit market share of 3.55 percent.

Unemployment is low and stable within the AA, providing for a strong and thriving economy. Economic activity in the AA is centered in the services, agriculture, and retail trade. Based on the 2016 Business Demographic Data, the services industry comprises 34 percent of activity, followed by agriculture at 22 percent of activity and retail trade at 10 percent.

SCOPE OF EVALUATION IN NORTH DAKOTA

American Federal has only one AA in the ND Non-MSA rated area. As such, we conducted a full-scope review of the AA and the ratings are based entirely on results of this area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NORTH DAKOTA

American Federal's CRA performance in the State of North Dakota is Needs to Improve. The bank's performance under the lending test is Satisfactory and under the community development test is Needs to Improve.

LENDING TEST

The bank's performance under the lending test in North Dakota is rated Satisfactory.

Lending to Farms of Different Sizes

The distribution of agricultural loans reflects good penetration among farms of different sizes when compared to the aggregate lending data. The number and amount of bank loans to farms with revenues less than or equal to a million dollars exceeds aggregate lending data, but does not meet area demographics. The following tables show the distribution of agricultural loans to farms of different sizes:

2015 Borrower Distribution of Loans to Farms in ND Non-MSA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.86%	1.14%	0.00%	100%
Aggregate Lending data	53.21%	46.79%	0.00%	100%
% of Bank Loans in AA by #	70.00%	30.00%	0.00%	100%
% of Bank Loans in AA by \$	59.95%	40.05%	0.00%	100%

Source: Loan Sample; 2015 Peer Lending Data; 2015 Business Geodemographic Data

Geographic Distribution of Loans

There are no low- or moderate-income census tracts located in the AA. As such, a geographic distribution analysis was not meaningful in 2014-2015.

Responses to Complaints

The bank has not received any complaints regarding its CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in North Dakota is rated Needs to Improve.

The bank's level of community development activity is poor. We noted no community development services or investments and limited community development loans in the

AA. The lack of community development activity in this AA is somewhat explainable given that the area includes only one branch location and represents the least deposit and loan origination volume of the branches. Deposit market share and loan origination within this AA account for five percent and four percent of American Federal's total volume, respectively.

However, there is a need for affordable housing in the area and opportunities are available for local financial institutions to get involved on local volunteer boards. Additionally, there numerous opportunities available in the AA for the bank to make qualified community development donations.

Number and Amount of Community Development Loans

During the review period, the bank made two qualified loans totaling \$1.1 million. The loans supported community development through area revitalization/stabilization efforts. Both loans were FSA guaranteed loans that were made in distressed and underserved areas that helped to create and retain jobs in these areas for farmers who are either beginning farmers or who cannot qualify for traditional bank financing.

Number and Amount of Qualified Investments

During the review period, the bank did not make any qualified donations to area organizations supporting community services for low- and moderate- income individuals

Extent to Which the Bank Provides Community Development Services

There were no bank employees that provided community development services during the review period.

Responsiveness to Community Development Needs

American Federal demonstrated poor responsiveness to community development needs in its AA considering the bank's capacity and the need and availability for community development in the bank's AA.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: (01/01/14 to 06/30/16) Community Development Test: (06/31/13 to 06/30/16)	
Financial Institution	Products Reviewed	
American Federal Bank (American Federal) Fargo, North Dakota	Farm loans Commercial Loans Community Development	
Affiliate(s)	Affiliate Relationship	Products Reviewed
NA		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Fargo-Moorhead, ND-MN MMSA	Full-Scope	
Grand Forks, ND-MN MMSA	Full-Scope	
Minnesota Nonmetropolitan Area	Full-Scope	
North Dakota Nonmetropolitan Area	Full-Scope	

Appendix B: Summary of Multistate Metropolitan Area and State Ratings

Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
American Federal	Satisfactory	Satisfactory	Satisfactory
Grand Forks MMSA	Satisfactory	Satisfactory	Satisfactory
Fargo-Moorhead MMSA	Satisfactory	Needs to Improve	Needs to Improve
Minnesota Non-MSA	Satisfactory	Satisfactory	Satisfactory
North Dakota Non-MSA	Satisfactory	Needs to Improve	Needs to Improve