

PUBLIC DISCLOSURE

January 13, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

1st Bank
RSSD #564856

201 North Wilbur Avenue
Broadus, MT 59317

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, MN 55480

NOTE: This document is an evaluation of this bank'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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

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INSTITUTION'S CRA RATING

1st Bank (the bank) is rated **Satisfactory**. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans are originated inside the AA.
- A reasonable dispersion of loans occurs throughout the bank's AA.
- Lending reflects a reasonable penetration among farms of different sizes.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

The Federal Financial Institutions Examination Council's (FFIEC's) Interagency Examination Procedures for Small Institutions were utilized to evaluate the bank's CRA performance. The evaluation considered the CRA performance context, including the bank's asset size, financial condition, business strategy and market competition, as well as AA demographic and economic characteristics, and credit needs. Lending performance was assessed within the bank's Powder River County AA. The following data was reviewed:

- The bank's 16-quarter average NLTD ratio.
- Statistical sample of 80 small farm loans originated between January 1, 2018, and December 31, 2018. As shown in Table 1, agricultural loans represent 85.1% of the bank's loan portfolio.

Of the five core performance criteria, examiners placed the greatest weight on lending penetration among farms of different sizes, followed by NLTD ratio and lending inside the AA, equally. Examiners placed the least weight on geographic dispersion of loans. The bank and the Reserve Bank have not received any complaints since the previous evaluation.

DESCRIPTION OF INSTITUTION

1st Bank is a community bank headquartered in Broadus, Montana. The bank's characteristics include the following:

- The bank is a wholly owned subsidiary of 1st United Bancorporation, Inc.
- The bank has total assets of \$47.4 million as of September 30, 2019.
- The bank has its only office in Broadus, Montana.
- The bank operates one cash-dispensing-only ATM in the Broadus supermarket. Since the previous evaluation, the bank closed a cash-dispensing-only ATM located at another local business.

- The bank’s primary business focus is agricultural lending. The bank also offers consumer and small business loans. The bank does not offer residential real estate loans. The overall composition of the loan portfolio has not changed significantly since the previous evaluation. However, the commercial, consumer, and residential real estate loan portfolios decreased.

Table 1		
Composition of Loan Portfolio as of September 30, 2019		
<i>Loan Type</i>	<i>\$(000)</i>	<i>%</i>
Agricultural	19,932	85.1
Commercial	2,548	10.9
Consumer	665	2.8
Residential Real Estate	278	1.2
Other	10	>0.1
Gross Loans	23,433	100.0
<i>Note: Percentages may not total 100.0% due to rounding.</i>		

The bank was rated Satisfactory under the CRA at its December 1, 2015, performance evaluation. There are no known legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

The bank’s AA consists of Powder River County (see Appendix A for AA maps).

- The bank has not changed its AA since the previous evaluation.
- The AA consists of one middle-income census tract. The tract has been classified as underserved since the previous evaluation.
- According to the June 30, 2019, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank is the only FDIC-insured financial institution operating in Powder River County, with 100% of deposits in the county.
- Examiners met with a community contact who works at an organization that specializes in the agricultural economy and the needs of farmers in Powder River County.

Table 2			
Population Change			
<i>Area</i>	<i>2010 Population</i>	<i>2015 Population</i>	<i>% Change</i>
Powder River County	1,743	1,703	-2.3
State of Montana	989,415	1,014,699	2.6
<i>Source: 2010 U.S. Census Bureau Decennial Census</i>			
<i>2011-2015 U.S. Census Bureau: American Community Survey</i>			

- The population in Powder River County decreased slightly since the 2010 census.

- Broadus is the county seat of Powder River County, with a 2018 estimated population of 473. Bank management and the contact indicated that the population of Powder River County is aging.

Table 3			
Median Family Income Change			
<i>Area</i>	<i>2010 Median Family Income</i>	<i>2015 Median Family Income</i>	<i>% Change</i>
Powder River County	\$50,156	\$58,077	15.8
State of Montana	\$55,725	\$61,271	10.0
<i>Source: 2006-2010 U.S. Census Bureau: American Community Survey 2011-2015 U.S. Census Bureau: American Community Survey</i>			

- The median family income for Powder River County is slightly below that of the state of Montana.
- Based on 2018 FFIEC adjusted census data, the percentage of households living below the poverty level in the AA is approximately 11.0%, which is below the percentage for the state at 14.5%.
- Bank management indicated that average wages for nonprofessional workers in the AA are \$12-15 per hour.

Table 4				
Unemployment Rates				
<i>Area</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Powder River County	2.5%	2.3%	2.5%	2.9%
State of Montana	4.2%	4.1%	3.9%	3.7%
<i>Source: Bureau of Labor Statistics: Local Area Unemployment Statistics</i>				

- The unemployment rate for Powder River County has been generally stable, while the trend for the state of Montana is generally decreasing. However, Powder River County's unemployment rate continues to be lower than the statewide rate.
- According to bank management and the community contact, the economy is based on agriculture, primarily cow/calf operations. Bank management and the contact described a depressed agricultural economy. Cattle and crop prices have steadily declined since 2014; however, operational costs have increased. In addition, crop production in recent years has been strong, and many farmers are storing crops until prices rebound.
- The main nonfarm employers include county government, including the school district, an oil company, and several small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank’s average NLTD ratio to determine the reasonableness of lending in light of performance context, such as the bank’s capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the AA. There are no similarly situated financial institutions operating in the bank’s AA for comparison purposes. The bank’s NLTD ratio is reasonable.

The bank’s average NLTD ratio for the past 16 quarters is 54.5%. At the previous evaluation, the bank’s 20-quarter average NLTD ratio was 57.2%. Since then, the bank’s quarterly NLTD ratio has ranged from 43.7% to 68.2%. Generally, the NLTD increases throughout the first three quarters of the year and decreases in the final quarter, when farmers sell crops and livestock. Bank management indicated that loan demand has trended downward in recent years, partly because some farmers do not have sufficient cash flow to service new loans.

As of September 30, 2019, the bank’s NLTD ratio was 56.0%, which is below the peer group NLTD ratio of 65.9%. The bank’s peer group includes insured commercial banks not located in a metropolitan statistical area that have assets less than \$50 million with one full-service banking office.

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. A majority of the bank’s loans, by number, are originated inside the AA. Although a majority of the bank’s loan dollars are originated outside the AA, loan dollars are comprised of multiple loans to few borrowers. In particular, the bank extended eight loans to one borrower, totaling approximately 30% of these loan dollars.

<i>Loan Type</i>	<i>Inside</i>				<i>Outside</i>			
	#	#%	\$(000)	%	#	#%	\$(000)	%
Small Farm Loans	50	62.5	2,611	46.0	30	37.5	3,063	54.0
Total Loans	50	62.5	2,611	46.0	30	37.5	3,063	54.0

Note: Percentages may not add up to 100.0% due to rounding.

Geographic Distribution of Loans

This performance criterion evaluates the bank’s distribution of lending within its AA by income level of census tracts. The bank’s AA contains only one middle-income census tract. The geographic distribution of loans reflects reasonable dispersion throughout the AA. No unexplained gaps in lending were identified.

Lending to Farms of Different Sizes

This performance criterion evaluates the bank’s lending to farms of different revenue sizes in the AA. The bank’s lending has a reasonable penetration among farms of different sizes. According to 2018 Dun & Bradstreet data, 100.0% of farms in the AA have gross annual revenues of \$1 million or less.¹ The bank extended 88.0% of its small farm loans to farms with gross annual revenues of \$1 million or less, as shown in Table 6. Of these loans, 84.1% were in amounts of \$100,000 or less, which indicates a willingness to serve the credit needs of smaller farms. The contact noted that the bank is meeting small farm credit needs.

Table 6 Small Farm Lending By Revenue & Loan Size Assessment Area: Powder River County, 2018							
Product Type		Bank & Demographic Comparison 2018					
		Count Bank		Dollars Bank		Total Farms	
		#	%	\$(000)	%	%	
Small Farm	Revenue	\$1 Million or Less	44	88.0	2,461	94.3	100.0
		Over \$1 Million or Unknown	6	12.0	150	5.7	0.0
		Total	50	100.0	2,611	100.0	100.0
	Loan Size	\$100,000 or Less	43	86.0	1,161	44.5	
		\$100,001 - \$250,000	5	10.0	798	30.6	
		\$250,001 - \$500,000	2	4.0	652	25.0	
		Total	50	100.0	2,611	100.0	
	Loan Size & Rev \$1 Mill or Less	\$100,000 or Less	37	84.1	1,011	41.1	
		\$100,001 - \$250,000	5	11.4	798	32.4	
		\$250,001 - \$500,000	2	4.5	652	26.5	
Total		44	100.0	2,461	100.0		

*Originations & Purchases
2018 FFIEC census data & 2018 Dun & Bradstreet data
Note: Percentages may not add up to 100.0% due to rounding.*

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

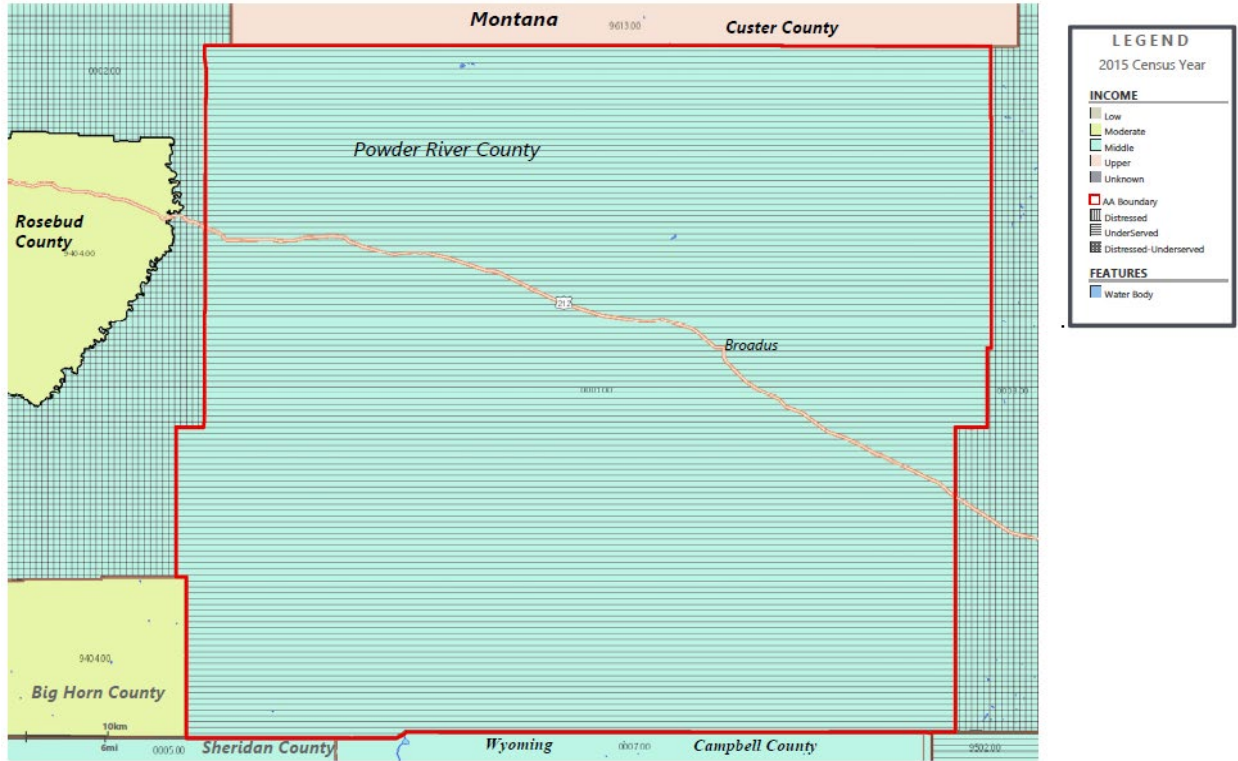
An evaluation of the bank’s fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

¹ Dun & Bradstreet data is based on self-reported information and it may be slightly over-estimating the number of small farms in the area. Bank management indicated there are a few farms in the area with gross annual revenues over \$1 million.

APPENDIX A – MAPS OF THE ASSESSMENT AREA

AA Boundary

1st Bank



1st Bank
Broadus detail



APPENDIX B – DEMOGRAPHIC INFORMATION

POWDER RIVER COUNTY AA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	72	15.3
Moderate	0	0.0	0	0.0	0	0.0	96	20.3
Middle	1	100.0	472	100.0	21	4.4	114	24.2
Upper	0	0.0	0	0.0	0	0.0	190	40.3
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	1	100.0	472	100.0	21	4.4	472	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	1,021	526	100.0	51.5	230	22.5	265	26.0
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	1,021	526	100.0	51.5	230	22.5	265	26.0
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	100	100.0	92	100.0	3	100.0	5	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	100	100.0	92	100.0	3	100.0	5	100.0
Percentage of Total Businesses:				92.0		3.0		5.0
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	58	100.0	58	100.0	0	0.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	58	100.0	58	100.0	0	0.0	0	0.0
Percentage of Total Farms:				100.0		0.0		0.0
2018 FFIEC census data and 2018 Dun & Bradstreet information.								
<i>Note: Percentages may not add up to 100.0% due to rounding.</i>								

APPENDIX C – GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

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

applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. An MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of an MSA based on specific criteria including commuting patterns. Only an MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.