

**GENERAL INFORMATION**

*The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the CRA performance of 1st United Bank of Sidney, Sidney, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of January 8, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** This institution is rated Outstanding.

Several factors support the bank's outstanding rating. First, the bank has maintained a very high loan-to-deposit ratio since the last evaluation. Second, based on an analysis of the bank's loans, the bank lends to borrowers of many different income levels and to businesses of many different sizes. As subsequently discussed in detail, the bank lends a significant portion of its consumer and real estate loans to low- and moderate-income borrowers. Third, the bank has a substantial portion of its loans within its assessment area.

The following table indicates the performance level of 1st United Bank of Sidney, Sidney, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	1st United Bank of Sidney PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior evaluation.		

#### **DESCRIPTION OF INSTITUTION**

The bank is able to effectively meet area credit needs based on a variety of factors. The bank is a reasonable size for a community such as Sidney, Montana, which has 5,217 residents, according to 1990 census data. Based on September 30, 1995, Report of Condition ("ROC") information, the bank had total assets of about \$34 million. Since March 31, 1994, the bank's total assets have increased approximately \$2.4 million. A significant portion of the bank's loan portfolio includes agriculture-related loans, which mirrors the agricultural nature of the local economy. According to the bank's September 30, 1995, ROC, agricultural loans comprised 34% and agricultural real estate loans totaled 16% of the bank's portfolio. The remainder of the portfolio included 19% commercial, 16% residential and commercial real estate, and 15% consumer loans.

The bank offers many different types of loan products that serve local residents' credit needs. Its agricultural products include operating, machinery, livestock, feeder cattle, and farm real estate loans. In addition, the bank provides Farmers Home Administration-guaranteed and -subordinated loans. Commercial customers may obtain conventional and Small Business Administration-guaranteed loans for equipment, short-term financing needs, business start-up funds, accounts receivable and inventory financing, and commercial real estate purposes. In addition to its agricultural and commercial products, the bank provides a number of real estate loan products, several of which serve lower-income borrowers. For example, the bank offers Federal Housing Administration, Department of Veterans Affairs, Montana Board of Housing, and conventional mortgage loans. The bank also has an active consumer lending program. The bank's loan products appear appropriate for its community's credit needs.

#### **DESCRIPTION OF ASSESSMENT AREA, RICHLAND COUNTY**

The bank defines its assessment area as Richland County, Montana. The county is located in the northeastern section of the state, close to the North Dakota border. Based on 1990 census data, it has 10,716 residents, 5,217 of whom live in Sidney and 869 of whom live in Fairview, Montana. Of the five block numbering areas ("BNA") located in the county, one is designated moderate income and the other four are middle income. Most of the county's residents live in the extreme eastern portion of the county in communities near the Yellowstone River. The central and western portions of the county contain sparsely populated ranch land.

The one moderate-income BNA (9520) covers a vast, sparsely populated area in northern Richland County. Although this BNA covers more than a third of the county, it has only 1,672 residents and 642 households. Another sparsely populated western BNA (9521) has only 669 residents and 261 households, even though it also covers about a third of the county. In comparison, the county's other three BNAs have a total of 8,375 residents and 3,106 households.

Richland County serves as a retail and business center for a large area of northeastern Montana. Although its economy is agriculture-based, Sidney has several relatively large employers. In addition, Sidney has many active retailers and businesses, including several financial institutions. Its banking community is best described as competitive. Sidney alone has three banks, a thrift, a credit union, and a Farm Credit Services office. Fairview also has a bank.

Bank employees and community contacts describe the county's economy as stable. The well-diversified nature of the economy contributes to its economic stability. Unlike other parts of Montana, Richland County has several agricultural sectors. In addition to cattle ranching, farmers raise dry crops in western sections of the county and irrigated crops in the river valley

area. With this diversification, the different agricultural sectors rarely experience financial difficulties at the same time. For instance, while cattle prices were unusually low in 1994, wheat and barley prices were at all time highs. Richland County is also a very large producer of sugar beets.

#### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done an outstanding job of meeting the credit needs in its assessment area. The criteria detailed below were reviewed in determining this rating.

##### Loan-to-Deposit Ratio Analysis

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance. Since the previous evaluation, the quarterly average of the bank's loan-to-deposit ratio is 83%. The following chart, based on quarterly ROC data, shows that the bank's ratio has been consistently high since the last evaluation:

Date	Gross Loans (In thousands)	Deposits (In thousands)	Loan-to-Deposit Ratio
September 30, 1995	\$25,378	\$29,765	85%
June 30, 1995	\$25,383	\$28,937	88%
March 31, 1995	\$24,291	\$27,726	88%
December 31, 1994	\$25,135	\$28,371	89%
September 30, 1994	\$22,984	\$26,786	86%
June 30, 1994	\$23,140	\$25,777	90%
March 31, 1994	\$20,453	\$27,776	74%
December 31, 1993	\$19,638	\$29,583	66%

Not included in the bank's loan-to-deposit ratio is the large number of real estate loans sold each year to the secondary market. The bank sold a large number of loans to the secondary market in 1995. In addition, the bank sold loans in mid-1995 to decrease its loan-to-deposit ratio. The bank lends a large portion of its deposits to residents of its assessment area. It would not be reasonable to expect the bank to lend a larger percentage of its funds.

##### Lending in Assessment Area

Based on a statistical review of loan originations within at least the last six months, a substantial majority of the bank's loans were made within its assessment area. The percentage of loans within the assessment area varied by loan type. For example, 89% of the number and total dollar amount of the bank's real estate loans were made on properties located in the assessment area.

The percentages decreased somewhat for consumer and commercial and agricultural loans. The bank made 75% of the total number and 74% of the dollar volume of consumer loans within its assessment area. Although 66% of the total dollar volume of commercial and agricultural loans were made within the assessment area, 78% of the total number of loans were within the assessment area. In addition, one commercial borrower's loan constituted 43% of the total dollar amount of loans from outside the assessment area. Excluding this one loan from the analysis increases the percentage of the total dollar amount of commercial and agricultural loans within the assessment area to 77%. Since Sidney is a retail and business center for much of the northeastern part of the state, some lending activity outside the assessment

area should be expected.

Based on this information, the bank has a very high percentage of its loans within its assessment area. Most of the bank's loans outside the assessment area are to borrowers residing in communities neighboring Richland County.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

The bank's record of lending to borrowers of different income levels and to businesses of different sizes is excellent. CRA categorizes income levels into four categories: low-income, moderate-income, middle-income, and upper-income. Low-income individuals have incomes of less than 50% of the median income, and moderate-income individuals have incomes of at least 50% but less than 80% of the median income. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the median income. An individual with an income that is 120% or more of the median income is considered an upper-income person. Because Sidney is not in a metropolitan statistical area, the median income of a borrower is determined in relation to the statewide nonmetropolitan median family income of \$27,352. The median family income for the assessment area is \$26,266. Based on the 1990 census, 19.6% of the households in the assessment area are low-income; 16.1% are moderate-income, 19.5% are middle-income; and 44.9% are upper-income.

The bank provides consumer and consumer real estate loans to individuals of all different income categories, as shown in the following chart.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL</b>				
<b>Loan Type</b>	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>
<b>CONSUMER REAL ESTATE</b>				
Total Number of Loans	8%	36%	26%	31%
Total Amount of Loans	4%	23%	16%	57%
<b>CONSUMER</b>				
Total Number of Loans	31%	31%	16%	22%
Total Amount of Loans	30%	23%	18%	29%

As shown above, the bank made almost two-thirds of its consumer loans to low- and moderate-income borrowers. In addition, the bank made 44% of its consumer real estate loans to low- and moderate-income borrowers. Low- and moderate-income households account for 35.7% of the assessment area's population. The remaining real estate loans are almost evenly distributed between the remaining two income categories. It does not seem unreasonable that the bank made only 8% of its real estate loans to low-income borrowers. In rural Montana, borrowers classified as low-income have annual incomes of approximately \$14,000. In any community, it is difficult to buy a home with such a small income. Based on 1990 U.S. census data, the gross median monthly rent for Richland County was \$280, and the median housing value was \$43,811. However, the bank does make a significant percentage (31%) of its consumer loans to low-income borrowers.

Almost all the bank's commercial and agricultural borrowers have gross annual revenues of \$1 million or less. For example, in a sample of 85 commercial and agricultural loans, only one borrower had gross annual revenues that exceeded

\$1 million. In addition, many of the bank's borrowers obtained relatively small loans. For example, more than a third of these loans had loan amounts of \$10,000 or less. Almost 44% of these borrowers had loans of \$50,000 or less. The bank's commercial lending patterns seem reasonable when compared to the types of local businesses. According to U.S. census data for 1992 County Business Patterns, Richland County had only 10 businesses that employed between 50 and 499 employees. The remaining 371 businesses had 49 or less employees.

Based on the preceding information, the bank does an excellent job of lending to borrowers of all income levels and to small businesses and farms.

#### Geographic Distribution of Loans

The distribution of the bank's loans throughout its assessment area is reasonable. As previously discussed, the bank's assessment area includes four middle-income BNAs and one moderate-income BNA. As the following chart indicates, the bank has the vast majority of its loans in the middle-income BNAs.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL*</b>		
<b>Loan Type</b>	<b>Moderate-Income BNA</b>	<b>Middle-Income BNA</b>
<b>COMMERCIAL AND AGRICULTURAL</b>		
Total Number of Loans	23%	77%
Total Amount of Loans	34%	66%
<b>CONSUMER REAL ESTATE</b>		
Total Number of Loans	13%	87%
Total Amount of Loans	47%	66%
<b>CONSUMER</b>		
Total Number of Loans	5%	95%
Total Amount of Loans	11%	89%

\*The bank's assessment area includes only moderate- and middle-income BNAs.

In general, the bank's distribution of loans is reasonable given the demographic characteristics of the assessment area. As previously discussed, the majority of the county's residents live in eastern Richland County, an area with almost all middle-income BNAs. The moderate-income BNA has few residents living in a relatively large geographic area, accounting for 15.6% of the assessment area's population.

Compared to its consumer and consumer real estate loans, the bank has more commercial and agricultural loans in the moderate-income BNA. Because this BNA includes sparsely populated ranch land, most of its residents are probably ranchers and farmers. As such, it seems reasonable that the bank would have more agricultural loans in this area. In addition, bank management indicated that some residents of this BNA bank in Wolf Point, Montana, a community closer to the residents who live in the BNA's western section.

#### General

The evaluation did not reveal any violations of the substantive or technical

provisions of the fair housing and fair lending laws and regulations. In addition, the bank has not received any complaints.