

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 Flint Creek Valley Bank, Philipsburg, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of March 5, 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 Satisfactory.

Several factors support the bank's satisfactory rating. First, the bank has maintained a reasonable loan-to-deposit ratio since the last evaluation. Second, the bank has a substantial majority of its loans within its assessment area. Finally, the bank lends to borrowers of many different income levels and to small businesses.

The following table indicates the performance level of Flint Creek Valley Bank, Philipsburg, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FLINT CREEK VALLEY BANK 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 previous evaluation		

DESCRIPTION OF INSTITUTION

Based on a variety of factors, the bank is able to meet area credit needs in an effective manner. The bank's only office is in Philipsburg, Montana, a small, rural community of 925 residents. Since the previous evaluation, the bank added cash-only automated teller machines ("ATM") in Philipsburg and Drummond, Montana. Both ATMs are in the bank's assessment area.

The bank's size supports its ability to meet credit needs in its assessment area. According to its December 31, 1995, Report of Condition ("ROC"), the bank has approximately \$26.8 million in assets. The bank's asset size has increased by about \$1 million since the previous evaluation. Based on December 31, 1995, ROC data, the bank's loan portfolio includes mostly real estate and commercial loans. Real estate loans comprise 45% of the portfolio, with consumer real estate loans accounting for 22%, agricultural real estate loans making up 20%, and commercial real estate loans accounting for 3% of the portfolio. The remainder of the portfolio includes 32% commercial, 16% agricultural, and 7% consumer loans.

The bank offers a variety of loan products that serve the credit needs of area residents. Included are loans for agricultural, consumer, small business, community development, and government purposes. In addition, the bank provides residential real estate loans for purchasing, refinancing, and improving homes. The bank participates in government-guaranteed loan programs sponsored by the Small Business Administration, Department of Veterans Affairs, and Federal Housing Administration.

DESCRIPTION OF GRANITE COUNTY, MONTANA

The bank defines its assessment area as Granite County, Montana, a western Montana county located southeast of Missoula, Montana. Based on 1990 U.S. census data, Granite County has few residents (2,548). Because the Sapphire Mountain range forms the county's western boundary, most of the county's residents live in its eastern section.

The bank's assessment area includes block numbering areas ("BNA") 9917 and 9918. Although both BNAs are designated middle income, the median family incomes for the tracts are just higher than those in the moderate-income category. As discussed in detail under the Lending to Borrowers of Different Income Levels . . . section, moderate income is defined as being less than 80% of the nonmetropolitan median family income. The income levels of BNAs 9917 and 9918 are about 85% and 83% of the nonmetropolitan median family income, respectively. The household median income for the assessment area is \$18,302. Of the 1,053 total households in the assessment area, approximately 28% are low income, 21% are moderate income, 18% are middle income, and 33% are upper income. Approximately 19% of the households have incomes below the poverty level.

Granite County's economy has started to diversify in recent years. Although agriculture continues to dominate the county's economy, the area continues to attract more tourists and summer residents. Several small businesses have been successful drawing on the tourist trade. For example, one such business now employs 22 individuals. Despite the increased tourist trade, few jobs are available for county residents. According to bank management, some residents commute more than 50 miles to Butte, Montana, for employment purposes. County government and a local hospital are the largest employers in Granite County.

According to bank management, low cattle prices have increased the need for operating credit lines with annual carryover features. In addition, increased demand for housing and land has caused real estate prices to increase significantly in the last five years. Bank management stated that the area's relatively high land prices have priced many individuals out of the new home

market. Most new home builders in the area have higher-than-average incomes and have moved to the area from Missoula, Montana; California; or Washington. Community contacts stated that some ranchers have sold ranch land to housing developers.

Examiners contacted several residents of the assessment area as part of this evaluation. Information from these contacts was used in evaluating the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting 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 is reasonable given the credit needs in the assessment area. As such, the ratio meets the standards for satisfactory performance. The quarterly average of the bank's loan-to-deposit ratio since the previous evaluation is 59%. The ratio has ranged from a low of 54% as of December 31, 1995, to a high of 61% as of September 30, 1994, and September 30, 1995. The bank's loan volume has remained relatively constant since the previous evaluation. Bank management indicated that while real estate activity has increased, agricultural volume has decreased in the past five years.

The bank is Granite County's only bank. Its nearest competitors are located approximately 75 miles northwest in Missoula and approximately 35 miles southeast in Anaconda, Montana. Community contacts commented that the majority of county residents bank in Philipsburg. As such, there are no local competitors in the bank's assessment area. In addition, because the Anaconda banks are branches of larger financial institutions, loan-to-deposit ratio information is not available for these individual branch offices.

Since the previous evaluation, the bank provided loan funds for two notable community development projects in Philipsburg. Funds for the first loan helped start a business that serves a large majority of low- and moderate-income individuals. The bank provided funds to the second small business

owner to expand the business significantly. Given the small number of businesses in Philipsburg, this loan helped promote economic development in the area.

One community contact noted improvement in the bank's lending activities in the last ten years. He added that the bank has expanded its services and explained that the bank supports its community.

Lending in Assessment Area

Based on a statistical sample of loans, the bank made a substantial majority of its loans within its assessment area. The following chart shows the percentage of total number of loans and total dollar volume of loans by type located within the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA

Loan Type	Total Number of Loans	Total Amount of Loans
Commercial and Agricultural	94%	81%
Consumer Real Estate	96%	98%
Consumer	88%	61%

The chart shows that the bank made the vast majority of sampled loans to residents of its assessment area. As such, the bank exceeds the reasonableness standard for this category. Although the bank made almost all its consumer loans to assessment area residents, it made only 61% of the total dollar amount of such loans to area residents. The percentage of the total dollar amount of consumer loans is lower than the total number of loans because the sample included one relatively large consumer loan outside the assessment area. Excluding this loan from the sample increases the percentage of the total dollar amount of consumer loans within the assessment area to 83%.

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

The bank has an excellent record of lending to borrowers of different income levels and to businesses of different sizes. CRA divides income levels into four categories: low income, moderate income, middle income, and upper income. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or geography's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but

less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median family income is considered an upper-income person. BNAs and census tracts are classified using similar categories based on the level of the median family income in the geography. The statewide nonmetropolitan median family income for Montana is \$27,352. The assessment area's median family income is \$22,839.

The following chart shows the percentage of consumer real estate and consumer loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
CONSUMER REAL ESTATE				
Total Number of Loans	9%	5%	45%	41%
Total Amount of Loans	3%	0%	53%	44%
CONSUMER				
Total Number of Loans	49%	11%	23%	17%
Total Amount of Loans	23%	6%	14%	58%

As shown above, the bank made 60% of its consumer loans to low- and moderate-income individuals. Although the bank made only 17% of its consumer loans to upper-income borrowers, it made a large percentage (58%) of the total dollar volume of consumer loans to upper-income borrowers. The bank made only 23% of the total dollar volume of consumer loans to low-income individuals. The loan sample included 35 consumer loans within the assessment area; two of these loans were relatively large loans made to one upper-income borrower. These two loans constituted 77% of the total dollar volume of loans in the consumer upper-income category. Excluding these two loans from the sample creates a more even distribution among the income categories, based on the total dollar volume of consumer loans. For example, the percentage of the total dollar volume of such loans to upper-income individuals drops to 24%. The percentage of the total dollar volume of loans to low-income individuals increases to 41%.

The bank made a much smaller percentage of its consumer real estate loans to low- and moderate-income individuals. Several factors contributed to this fact. First, the bank made a relatively small number of consumer real estate loans since the previous evaluation. Second, as discussed under the Description of Granite County, Montana, section, several sources indicated

that housing prices in the area are very high compared to income levels. As such, there is less demand for housing loans from lower-income individuals.

The bank's level of consumer lending to low- and moderate-income individuals exceeds the percentage of such individuals living in the assessment area. As previously discussed, 49% of the assessment area's households have low and moderate incomes. Only 18% are middle income and the remaining 33% are upper income. With 60% of its consumer loans made to low- and moderate-income individuals and 23% made to middle-income borrowers, the vast majority of such loans went to these income groups. Although the bank made few real estate loans to low- and moderate-income borrowers, the bank provided 45% of these loans to middle-income borrowers.

The bank provides almost all its commercial and agricultural loans to small businesses and farms. This is significant considering that commercial and agricultural loans, including commercial and agricultural real estate, constitute 71% of the bank's loan portfolio. None of the 48 assessment area borrowers included in the sample had gross annual revenues of \$1 million or more. Only one of the three commercial borrowers located outside the assessment area had gross annual revenues that exceeded \$1 million. Almost all the assessment area commercial and agricultural borrowers received loans for amounts less than \$100,000. Specifically, 90% of these borrowers received loans for less than \$100,000. In fact, 81% of the borrowers received loans for less than \$50,000. Only 6% received loans of at least \$100,000 but less than \$250,000 and only 4% received loans for amounts between \$250,000 and \$1 million. The sample's largest loan in the assessment area was for \$290,000.

Geographic Distribution of Loans

The distribution of the bank's loans throughout its assessment area is reasonable and meets the standard for satisfactory performance. As previously discussed, the bank's assessment area includes only middle-income BNAs. As such, all the bank's assessment area loans are located within middle-income BNAs. No further analysis is required. There is no reason to believe that any low- or moderate-income BNAs should be added to the bank's assessment area.

General

The evaluation did not reveal any violations of the substantive provisions of the fair housing and fair lending laws and regulations. The evaluation revealed violations of the technical aspects of Regulation B--Equal Credit Opportunity Act. Bank management promised to correct these violations in a prompt manner. In addition, the bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

March 5, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Flint Creek Valley Bank
Name of Depository Institution

093007900000
Identification Number of Institution

Philipsburg, Montana
Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

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