

**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 First Valley Bank, Seeley Lake, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of December 16, 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."

The CRA evaluation revealed several factors that support rating the bank's CRA performance as satisfactory. First, the bank's net loan-to-deposit ratio is high. Second, it has originated a majority of its loans to assessment area residents and businesses. Third, it actively extends loans to individuals with low to moderate incomes and to small businesses. Finally, it originates loans to borrowers residing throughout its assessment area.

The following table indicates the performance level of First Valley Bank, Seeley Lake, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST VALLEY BANK SEELEY LAKE, MONTANA 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 Income Levels and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the previous evaluation.		

**DESCRIPTION OF INSTITUTION**

The bank is able to fulfill area credit needs effectively. The previous CRA evaluation revealed that the bank's performance in meeting community credit needs was outstanding. The bank operates one full-service office in Seeley Lake, Montana. The bank also operates one cash-dispensing automated teller machine ("ATM"), which is located in a grocery store; however, it does not issue ATM access cards to bank customers. The bank's main office, centrally located within the assessment area, is in a middle-income census tract ("CT") in Missoula County.

Although it does not issue access cards to customers, the bank installed a cash-dispensing ATM in Seeley Lake since the last evaluation. The bank installed the ATM primarily for the benefit of local small businesses. Tourists' cash demands apparently are very high, and the ATM services these demands.

The bank's size does not restrict its ability to meet the credit needs of residents of its assessment area. According to its September 30, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$11 million. The bank's loan portfolio's size has fluctuated since the last evaluation but increased by 7%. The bank's quarterly loan and deposit growth rates are set forth in the following table:

QUARTERLY GROWTH RATES		
Period	Loans	Deposits
October 1, 1995, to December 31, 1995	3%	(5%)
January 1, 1996, to March 31, 1996	(4%)	(1%)
April 1, 1996, to June 30, 1996	7%	14%
July 1, 1996, to September 30, 1996	1%	3%

The September 30, 1996, ROC indicates that the bank is primarily a commercial lender; approximately 63% of its portfolio is commercial and commercial real estate loans. The balance of the bank's loan portfolio is composed of approximately 11% consumer, 25% consumer real estate, and 1% other loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of credit by residents of the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of residents and businesses within its assessment area. It extends consumer, residential real estate, mobile home, commercial, and agricultural loans. Its residential real estate loan portfolio includes numerous loans that do not conform to secondary market standards. In addition to these conventional loan products, the bank extends Small Business Administration loans. The bank also extends loans secured by borrower leased properties, which are owned by the state. The bank also refers residential real estate loan applicants to secondary market lenders.

**DESCRIPTION OF FIRST VALLEY BANK'S ASSESSMENT AREA**

The bank has defined its assessment area as sections of three counties: Missoula, Lake, and Powell. Of these three counties, Missoula County has the largest population, 78,687. Lake and Powell counties have populations of 21,041 and 6,620, respectively. The assessment area has a total population of

9,074. It includes the following towns: Seeley Lake, Condon, Potomac, Ovando, Helmville, Bigfork, and Swan Lake, Montana.

Seeley Lake is located approximately 50 miles northeast of Missoula in the northwest corner of Montana. Due to its size and location, the bank has not included the Missoula metropolitan area in its assessment area; however, it has included the Missoula County CTs 14 and 17 within the assessment area. CTs 14 and 17 are middle-income areas and have populations of 5,014 and 2,567, respectively.

The assessment area also includes block numbering areas ("BNA") in Lake and Powell counties. The bank has designated Lake County BNA 9950, which is north of Missoula County CT 17, as part of the assessment area. Lake County BNA 9950 is sparsely populated with 982 persons and is a middle-income area. The bank's assessment area also includes Powell County BNA 9812, which is located east of Missoula County CT 17. Powell County BNA 9812 has a population of 511 and is a moderate-income area. The assessment area does not include any low- or upper-income CTs or BNAs.

The southeastern section of the Flathead Indian Reservation ("Reservation") is in the bank's assessment area. This section of the Reservation is geographically separated from Seeley Lake by a mountain range. According to bank management, road access between Seeley Lake and the Reservation is limited to logging routes, which generally are closed during the winter. Consequently, the few residents of the southeastern section of the Reservation do not obtain financial services from the bank.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not located in a metropolitan statistical area, the categorization of a borrower or area's income is determined relative to the statewide nonmetropolitan median family income.<sup>1</sup> Pursuant to the CRA's definitions, 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 middle-income individuals as persons with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes of 120% or more than the statewide nonmetropolitan median family income are classified as upper-income persons. According to the 1996 updated data, the statewide nonmetropolitan median family income in Montana is \$34,700; this figure is used to classify income levels of borrowers. CTs and BNAs are classified using similar categories based on the level of the median family income in the geography compared with the 1990 statewide nonmetropolitan median family income of \$27,352.

According to the 1990 U.S. Census data, the assessment area's median household income is \$26,960, while its median family income is \$29,622. There are 3,452 households and 2,698 families within the assessment area. Approximately 16.7% of the households and 13.5% of the families residing within the assessment area have incomes below the poverty level. The percentage of such households and families in the assessment area is slightly higher than the statewide percentages of 15.7% and 12%, respectively. The distribution of household and family income for the assessment area is summarized in the following table.

ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income

<sup>1</sup>Although Missoula County has been tracted, it is not a metropolitan statistical area.

Households Compared to Median Household Income	21%	15%	14%	50%
Families Compared to Median Family Income	20%	15%	24%	41%

As previously noted, the bank's assessment area has two middle-income CTs, one middle-income BNA, and one moderate-income BNA. The population distribution of these areas is 55% in CT 14, 28% in CT 17, 11% in BNA 9950, and 6% in BNA 9812.

The local economy is stable. According to 1990 U.S. Census data, the assessment area's unemployment rate was 7.7%. This rate is slightly higher than the state's unemployment rate of 6.9% and the state's nonmetropolitan area unemployment rate of 7.3%.

Examiners contacted a county official and an area real estate agent as part of the bank's CRA evaluation. Information from these contacts was used in evaluating the bank's CRA performance.

The bank is located in the Rocky Mountains. Consequently, timber-related businesses employ a large number of local residents. Seeley Lake has a locally owned timber mill, which employs approximately 100 people; several post and pool production plants and mechanical logging contractors are also located in the bank's assessment area. Other significant employers include federal, state, and county governments.

Tourism is a developing industry in the bank's assessment area. The area's natural resources offer visitors year-round recreational opportunities, such as fishing, water skiing, snowmobiling, cross-country skiing, and camping. However, summertime recreational activities continue to attract most of the area's tourists. Because of the developing tourism industry, the number of persons employed in the retail service sector has increased in recent years. A large percentage of the real property in the bank's assessment area is not owned by individuals. Federal and state governments manage designated forests and lease some property for use by individuals. A timber company is also a significant land owner in the area. According to bank management, only 45% of the land mass within a 15-mile radius of Seeley Lake is privately owned. In the Condon area north of Seeley Lake, the amount of privately owned real property drops to 19%.

Seeley Lake has a large number of part-time residents, primarily retirees. According to bank management, Seeley Lake's population increases 100% in the summer. The retirees are financially secure and have limited, if any, need for credit. The influx of wealthy retirees has increased real property values in the assessment area.

According to bank management, Seeley Lake experienced significant commercial development during the past decade. Opportunities for additional growth appear limited, however, because of the area's remote location.

The bank is the only financial institution located in Seeley Lake. Because of its location, the bank competes with Missoula financial institutions, many of which are regional banks. Individuals and commercial entities in the northern section of the assessment area typically obtain financial services from institutions in Big Fork and Kalispell, Montana, while many individuals and commercial entities in the eastern section of the assessment areas obtain such services from institutions in Deer Lodge, Helena, Butte, or Missoula, Montana.

The bank also competes with Greentree Financial Corporation and mobile home dealers for the opportunity to finance mobile home loans.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's performance in meeting the credit needs in its assessment area is satisfactory. Much of the analysis on the following pages was based on a statistical sample of 48 consumer, 42 consumer real estate, and 53 small business loans originated since the last evaluation. The following criteria were analyzed to determine this rating: Loan-to-deposit ratio analysis, comparison of credit extended inside and outside the assessment area, lending to borrowers of different income levels and to businesses of different sizes, geographic distribution of loans, and general information.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio exceeds the standards for satisfactory performance. Since the last evaluation, the bank's net loan-to-deposit ratio has fluctuated between 73% and 83%. It also compares favorably with its peer group, based on the September 30, 1996, Uniform Bank Performance ("UBPR") data. These data indicate that the bank's September 30, 1996, net loan-to-deposit ratio of 73% ranks the bank in the 77th percentile as compared with its peers. The quarterly average of the bank's net loan-to-deposit ratio, based on the data for the five calendar quarters since September 30, 1995, is 78%. The following chart summarizes the bank's loan-to-deposit ratio and its components since September 30, 1995.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO-DEPOSIT RATIO
September 30, 1995	\$6,714	\$8,730	77%
December 31, 1995	\$6,910	\$8,314	83%
March 31, 1996	\$6,660	\$8,271	81%
June 30, 1996	\$7,141	\$9,460	75%
September 30, 1996	\$7,177	\$9,787	73%

Because of its size and remote location, the bank does not have any similarly situated competitors. Persons and businesses in the assessment area are served by a bank located in the northern section of the bank's lending area. As previously discussed, the bank competes with Missoula's financial institutions, which are mostly large, regional banks. A comparison between the bank and its Missoula competitors was not conducted because of this factor. The table below, which uses quarterly UBPR information, compares the bank's net loan-to-deposit ratio with that of its competitor.

BANK	TOTAL ASSETS (September 30, 1996) (In thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
First Valley Bank Seeley Lake, Montana	\$11,730	78%
Competitor A	\$50,468	70%

As that table shows, the bank's net loan-to-deposit ratio is higher than that of Competitor A, which is significantly larger than the bank.

The bank's quarterly average net loan-to-deposit ratio is high. Furthermore, it compares very favorably with the net loan-to-deposit ratio of its competitor. For these reasons and given the lack of credit demand from the large number of seasonal residents, some of whom hold deposit accounts at the

bank, the bank's lending activity exceeds this category's standards for a satisfactory rating.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity within its assessment area exceeds the standards for satisfactory performance. Since the last evaluation, the bank has extended a large majority of its loans to residents and businesses of its assessment area. The table below shows the percentage of consumer, consumer real estate, and small business loans by total number and dollar amount originated within the assessment area.

LOANS IN THE ASSESSMENT AREA		
LOAN TYPE	TOTAL NUMBER OF LOANS	TOTAL DOLLAR AMOUNT OF LOANS
Consumer	92%	94%
Consumer Real Estate	90%	89%
Small Business	91%	88%

As mentioned previously, the data is based on a statistical sampling of consumer, consumer real estate, and small business loans originated since the last evaluation. As the data indicate, the bank's lending activity is heavily concentrated within the assessment area.

The bank extends almost all of its commercial loans, which represent 63% of its loan portfolio, to small businesses located in its assessment area. It also extends almost all of its consumer and consumer real estate loans to borrowers residing in the assessment area. For these reasons, the bank's lending performance in the assessment area exceeds this category's standard for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different incomes and to businesses of different sizes meets the standards for satisfactory performance. As previously discussed, the CRA classifies income levels into four categories: low, moderate, middle, and upper. The 1990 median household and family incomes for the bank's assessment area are \$26,960 and \$29,622, respectively.

The table on the following page shows the percentage of consumer loans made to borrowers of different income levels.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS*</b>				
<b>Loan Type</b>	<b>Low-Income Borrowers</b>	<b>Moderate-Income Borrowers</b>	<b>Middle-Income Borrowers</b>	<b>Upper-Income Borrowers</b>
<b>CONSUMER</b>				
Total Number of Loans	25%	48%	16%	11%
Total Amount of Loans	22%	42%	28%	8%
<b>CONSUMER REAL ESTATE</b>				
Total Number of Loans	14%	19%	42%	25%
Total Amount of Loans	6%	13%	41%	40%
*Income level is determined based on the 1996 nonmetropolitan median family income of \$34,700.				

The consumer loan data reveal that the bank extends a large percentage of consumer loans to low- and moderate-income borrowers. Consumer loans to these borrowers represented 73% of the total number of loans and 64% of the total amount of loans in the sample. Low- and moderate-income households and families comprise 36% and 35% of the assessment area population, respectively. More specifically, low-income households and families represent 21% and 20% of the local population, respectively; moderate-income households and families represent the balance. Thus, the bank's consumer lending to low- and moderate-income borrowers appears to exceed the representation of such persons in the assessment area. Many upper-income residents are seasonal residents who are frequently retired and have limited demand for consumer loans.

The consumer real estate data show that the bank's lending to low- and moderate-income persons is 33% of the total number and 19% of the total amount of such loans. The bank's consumer real estate loan originations to low-income persons is less than expected given the assessment area's economic characteristics. This factor is primarily a function of area's high property values, which makes owning residential real property prohibitively expensive for low- and moderate-income persons. Because of rising property values and the amount of state-lease property in the assessment area, many area consumers demand mobile home loans. According to bank management, since the last evaluation, the bank has originated many such loans to low- and moderate-income persons.

The sample of commercial loans reviewed during the evaluation showed that the bank originates loans to small businesses, defined as entities with gross annual revenues of less than \$1 million. In fact, all of the sampled loans were to small businesses. According to the data, the bank originates loans of varying amounts to small businesses. Almost all of the sampled small business loans had loan amounts of \$100,000 or less. More specifically, 96% of the total number of small business loans to borrowers in the assessment area, representing 73% of the total amount of loans, had loan amounts of \$100,000 or less. The remaining 4% of the sampled small business loans had amounts greater than \$100,000 but less than or equal to \$250,000. This loan distribution is expected because almost all commercial entities in the bank's assessment area are classified as small businesses.

The bank's small business loan performance reflects the concentration of such entities in the assessment area. The bank's lending to low- and moderate-income consumers is very strong. The bank's consumer real estate loan performance is satisfactory given the nature of the assessment area's real estate market. Consequently, based on the income distribution of the bank's borrowers and the economic characteristics of the assessment area, the bank's level of lending to low- and moderate-income borrowers and to small businesses meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout the assessment area meets the standards of satisfactory performance. As previously discussed, the bank's assessment area has one moderate-income BNA, one middle-income BNA and two middle-income CTs. The following table shows the distribution of the bank's consumer, consumer real estate, and small business loans in moderate- and middle-income areas.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL*		
Loan Type	Moderate-Income BNA	Middle-Income CTs and BNA
CONSUMER		
Total Number of Loans	2%	98%
Total Amount of Loans	1%	99%
CONSUMER REAL ESTATE		
Total Number of Loans	3%	97%
Total Amount of Loans	3%	97%
SMALL BUSINESS		
Total Number of Loans	0%	100%
Total Amount of Loans	0%	100%
*The bank's assessment area includes no low- or upper-income CTs or BNAs.		

The bank extends a majority of its loans to persons and businesses in CT 17, the area in which the bank is located. The data show the following distribution by CT or BNA:

AREA	LOAN TYPE					
	CONSUMER		CONSUMER REAL ESTATE		COMMERCIAL	
	Number of Loans	Dollar Amount of Loans	Number of Loans	Dollar Amount of Loans	Number of Loans	Dollar Amount of Loans
14	-	-	-	-	2%	-
17	90%	93%	88%	86%	89%	87%
9812	2%	1%	2%	3%	-	-
9950	8%	6%	10%	11%	9%	12%

As the data show, the bank does not extend many loans to people or businesses

in CT 14, which is located between it and Missoula. It is not unexpected that most people or businesses in CT 14 do not obtain banking services from a bank located in Seeley Lake. It seems plausible that they would conduct their banking activities at one of the many financial institutions in Missoula. With respect to the bank's lending activity in BNA 9812, a local government official contacted during the evaluation stated that most residents of Powell County obtain financial services from institutions in Deer Lodge, Helena, or Missoula, Montana. Consequently, the bank's loan distribution appears reasonable given the bank's asset size and assessment area.

The bank extends loans to persons residing in and small farms located throughout the assessment area. Given the population and location of the moderate-income BNA, the amount and number of loan originations to borrowers located in the moderate-income BNA appears reasonable. Given these factors, the bank's lending activity meets this category's standard for satisfactory performance.

GENERAL

The evaluation did not reveal any violations of the fair lending or fair housing laws and regulations. In addition, the bank has not received any CRA complaints since the last evaluation.

## **PUBLIC DISCLOSURE**

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December 16, 1996  
Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

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First Valley Bank  
Name of Depository Institution

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093009100000  
Identification Number of Institution

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Seeley Lake, Montana 59868  
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.