

**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 Rocky Mountain Bank, Billings, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of December 2, 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 CRA rating. First, the bank has maintained a very good loan-to-deposit ratio since the last evaluation. Second, it makes a significant majority of its loans to residents of its assessment areas. Third, it has a reasonable distribution of loans to borrowers of different incomes and to businesses of different sizes. Finally, it makes a reasonable percentage of its loans to residents of the low- and moderate-income census tracts and block numbering areas ("BNA") in its assessment areas.

The following table indicates the performance level of Rocky Mountain Bank, Billings, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	ROCKY MOUNTAIN BANK BILLINGS, 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	The bank received no CRA complaints since the previous evaluation.		

## **DESCRIPTION OF INSTITUTION**

The bank is able to meet credit needs effectively based on its size and the products and services it offers. The bank received a satisfactory CRA rating at its last evaluation. The bank's main office is located in Billings, Montana, and it operates six full-service branch offices located throughout the state. The branches are in Plentywood, Harlem, Broadus, Whitehall, Stevensville, and Plains, Montana. The bank also operates 18 cash-dispensing and/or deposit-taking, 24-hour automated teller machine ("ATMs") at branch offices, grocery and convenience stores, and office buildings throughout its seven assessment areas. The bank has opened one office and two ATMs (one in Billings and one in Plentywood) since the last evaluation and has not closed any offices. On May 31, 1996, the Rocky Mountain Bank, Plentywood (formerly known as Security State Bank, Plentywood, Montana), merged with the bank. Since then, the bank has been operating it as a full-service branch.

Based on its September 30, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$226.9 million. Its assets have increased by approximately \$68.7 million (43%) since September 30, 1995, primarily because of the May 31, 1996, merger and opening of the Plentywood branch office. The bank is primarily a commercial and agricultural lender. According to its September 30, 1996, ROC, the bank's loan portfolio includes 40% commercial and 32% agricultural loans. The remainder of the portfolio includes 17% consumer real estate, 10% consumer, and 1% other loans.

The bank offers a variety of loan and deposit products that help serve the banking needs of residents of its assessment areas. It offers a wide variety of checking, savings, and time accounts, including accounts targeted to children and senior citizens. The bank offers commercial, agricultural, consumer, and real estate loans. The bank's consumer loan menu includes credit cards and overdraft checking lines of credit. In addition, the bank offers loans guaranteed by the Farm Service Agency, Small Business Administration, Bureau of Indian Affairs, Federal Housing Administration, Department of Veterans Affairs, Montana Board of Housing, and the Montana Board of Investments.

## **DESCRIPTION OF ROCKY MOUNTAIN BANK'S BILLINGS, HARLEM, AND PLENTYWOOD ASSESSMENT AREAS**

The bank has seven assessment areas, one for each office. At this evaluation, we visited the bank's offices in Billings, Harlem, and Plentywood.

### **Billings Assessment Area**

This assessment area consists of Yellowstone County, Montana, and is served by the main office in Billings. Yellowstone County is a metropolitan statistical area ("MSA").

This assessment area comprises 27 census tracts. Of these 27 census tracts, two are low income (1.00 and 3.00); approximately 4% of the assessment area residents live in these tracts. Four census tracts (2.00, 4.00, 9.01, and 9.02) are moderate income and contain about 14% of the assessment area's residents. Fifteen census tracts (5.00, 7.02, 7.03, 8.00, 10.00, 11.00, 12.00, 14.00, 15.00, 16.00, 17.01, 17.02, 18.02, 18.03, and 19.00) are middle income and contain 64% of the assessment area's population. Census tract 16.00 includes a small portion of the Crow Indian Reservation ("Reservation").

This section of the Reservation has no towns and few residents. The remaining six census tracts (6.00, 7.01, 7.04, 13.00, 18.01, and 18.04) are upper income and have about 18% of the assessments area's residents. The bank's office is located in census tract 17.01, which is middle income.

CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower or geography's income is determined

relative to the MSA's median family income. Low-income individuals have incomes of less than 50% of the MSA's 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 MSA's median family income. An individual with an income that is 120% or more of the MSA's 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.

According to 1990 census data, the Billings assessment area has 113,419 residents, all of whom live in the Billings MSA. Based on the 1990 census, the median family income is \$31,534 and the median household income is \$25,943. Approximately 9% of the assessment area's families and 13% of its households live below the poverty level. Of the assessment area's 44,877 total households, 24% are low income, 16% are moderate income, 20% are middle income, and 40% are upper income.

Examiners made a number of community contacts, including local government officials and members of community economic development and grassroots organizations, as part of this evaluation. Information obtained from these individuals was used in evaluating the bank's CRA performance.

Billings, the site of the bank's main office, is located in central Montana and is the largest city in the state. According to bank management and community members contacted during the evaluation, Billings has a stable economy with a great deal of diversity. Agriculture is considered a strong component; the leading commodities consist of cattle, wheat, and sugar beets. There is a sugar beet processing plant in Billings. However, more than 86% of the work force is employed in nonfarm jobs or occupations. Tourism is also considered a major component of the economy because of the available recreational options, including Yellowstone National Park just south of Billings. The city's convention trade is also expanding. Oil refining is another important part of the Billings economy; Billings has three oil refining facilities that produce asphalt, gasolines, and sweet crude petroleum. According to the Montana Department of Labor and Industry, the labor force is well educated and skilled. Major industries also include medical services, government offices, and two institutions of higher learning. Other significant aspects of the Billings economy include retail, financial, and transportation services. The unemployment rate remains approximately 4%.

Several community contacts said there is a significant lack of affordable housing in the Billings area. It is difficult to find affordable starter homes for less than \$60,000, and rental costs have continued to rise. The contacts also said that the housing market for homes priced between \$110,000 and \$125,000 continues to be fairly strong.

#### **Harlem Assessment Area**

The bank has defined the Harlem assessment area as Blaine County, Montana. This assessment area includes BNAs 9723, 9724, and 9725. BNAs 9723 and 9725 are classified as moderate income and BNA 9724 is classified as middle income. The bank's Harlem branch office is located in BNA 9723.

Harlem is located about 200 miles north of Billings in Blaine County. According to 1990 U.S. Census data, Harlem's population is 882. According to the same data, Blaine County's population is 6,728. BNAs 9723 and 9725 have a combined population of 3,921, or 58% of the assessment area. BNA 9724, classified as middle-income, has a population of 2,807, or 42% of the assessment area. The county also includes about three-fourths of the Fort Belknap Indian Reservation ("Reservation"), which has a population of 2,500. Most of the tribal members live on the Reservation.

The area's economy is agriculturally based, dominated by grain farming and

cattle ranching. Oil and natural gas production comprise a much smaller secondary economic source, and there is little tourism activity. In addition to Harlem, this assessment area includes Chinook, the county seat. Chinook has a population of approximately 1,500.

According to county officials familiar with the economic and demographic characteristics of Blaine County, crops have been good during the last few years, but the lack of moisture may hold down yields and, consequently, area farm earnings from the current harvest. In addition, low cattle prices have adversely affected the livestock operations in the area.

According to tribal officials contacted to help determine the economic situation on the Reservation, economic prospects are poor and unemployment continues to vacillate between 70% to 80%. The tribe is the major employer, although some tribal members ranch or farm. According to the contacts, a new Indian Health Service hospital will open soon on the Reservation. The hospital should provide some additional jobs when it opens. The tribal contacts also indicated that affordable housing on the Reservation is in short supply. However, they indicated that banks are not necessarily responsible for this housing shortage. For a variety of reasons, most housing for tribal members has been built through HUD programs that do not require bank involvement.

Examiners made several contacts with county and tribal government officials as part of this evaluation. Information obtained from these individuals was used in evaluating the bank's CRA performance in this assessment area.

As discussed under the Billings Assessment Area section, CRA assigns an income determination to borrowers and geographies based on a median income figure.

Because the Harlem assessment area is not located in an MSA, the categorization of a borrower or geography's income is determined relative to the statewide nonmetropolitan median family income. Based on 1990 census data, the Harlem assessment area's median family income is \$21,357 and its median household income is \$18,520. According to the same census, the statewide nonmetropolitan median family income for Montana is \$27,352. Of the 2,385 households in the Harlem assessment area, 31% are low income, 18% are moderate income, 21% are middle income, and 30% are upper income. Approximately 23% of the Harlem assessment area's families and 25% of its households have incomes below the poverty level.

#### **Plentywood Assessment Area**

The bank has defined this assessment area as Sheridan County, Montana, which is located in the northeastern corner of the state. The assessment area contains three BNAs: 9501, 9502, and 9503. BNA 9503 is designated as moderate income and the two other BNAs in the assessment area, 9501 and 9502, are classified as middle income.

The Plentywood assessment area is in Montana's northern region, known as Missouri River Country. The communities located within the assessment area include Plentywood, Raymond, Antelope, Westby, Coalridge, Dagmar, Outlook, Reserve, and Homestead, Montana. The assessment area is sparsely populated, with a total population of 4,732. According to 1990 U.S. Census data, Plentywood's population is 2,476, representing 52% of the assessment area's population. The bank's assessment area also includes the northeastern section of the Fort Peck Indian Reservation ("Fort Peck Reservation"). The Fort Peck Assiniboine & Sioux Tribe has approximately 11,000 members. Approximately 6,000 tribal members reside on the Fort Peck Reservation.

According to the 1990 U.S. census data, the assessment area's median family income is \$25,265, while its median household income is \$20,728. There are 1,353 families and 1,894 households in the assessment area. Approximately 11% of the families and 15% of the households residing in the assessment area have incomes below the poverty level. The distribution of family and household

income for the assessment area is summarized in the following table.

PLENTYWOOD ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Households Compared to Median Household Income	24%	19%	20%	37%
Families Compared to Median Family Income	21%	22%	24%	33%

Examiners contacted a local municipal government official and a tribal government representative as part of the CRA evaluation of this assessment area. Information from these contacts was used in evaluating the bank's CRA performance.

According to bank management and community contacts, the economy in the Plentywood assessment area has declined. A tribal official familiar with area economic and demographic issues also said that eastern Montana's economy is poor. He indicated that unemployment on the Fort Peck Reservation is approximately 58%. According to bank management and community contacts, agriculture is the main industry. Cattle and grain represent the local agriculture sectors. The demand for credit by local ranchers and farmers is limited because farm operations are passed from one generation to the next.

Plentywood is the assessment area's retail and government center and is the county seat of Sheridan County. Despite its small size, Plentywood is served by three financial institutions, making the market for financial services very competitive. Local residents and businesses also have access to credit from a number of other providers: credit unions in Medicine Lake and Scobey, Montana; a bank in Froid, Montana; and Farm Credit Services.

Assessment area residents are served by a regional hospital, which is one of the primary local employers, and a nursing home; both institutions are located in Plentywood. Because of the county's sparse population, many local businesses are the sole providers of their respective services within the assessment area. A local government official contacted during the evaluation indicated that some local businesses are struggling. Local residents often travel 60 miles to Williston, North Dakota, for retail and medical services.

#### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting the credit needs in the three assessment areas we evaluated. Much of the analysis on the following pages was based on a statistical sample of 176 consumer, 249 small farm and business, and 73 residential real estate loans originated since the preceding evaluation. The criteria discussed below were reviewed in determining this rating.

Examiners performed detailed analyses of three of the bank's assessment areas, the Billings MSA and the non-MSA assessment areas for the Harlem and Plentywood offices. Data for the other four assessment areas was reviewed to ensure consistency with the overall results. The assessment areas reviewed account for 53% of the bank's total assets, 56% of the bank's total loans, and 53% of total deposits as of September 30, 1996. Emphasis in this analysis is placed on the Harlem and Plentywood offices. Less than 20% of the bank's assets are centered in the Billings office. Accordingly, activity in the non-MSA assessment areas is more significant to the bank's overall performance than is its performance in the MSA. Moreover, the Billings office is a very small institution located in a very heavily banked community. As noted throughout the evaluation, the Billings office competes with several very

large institutions, including the main offices of the Montana subsidiaries of two regional bank holding companies. There are also many nonbank lenders active in the Billings market. Conversely, the Harlem and Plentywood offices are one of only three banks in their respective assessment areas. Activity by nonbank lenders in these assessment areas is limited. Finally, while the Billings assessment area includes some low- and moderate-income consumers and geographies, these areas are not adjacent to the Billings office. Conversely, the Harlem and Plentywood offices are centrally located in their assessment areas and can more easily serve borrowers and geographies of different income levels.

#### Loan-to-Deposit Ratio Analysis

The bank's loan-to-deposit ratio is reasonable and, as such, meets the standards for satisfactory performance. Since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 75%. The following chart, based on quarterly ROC data, shows that the bank's level of net loans increased by \$28.8 million since the previous evaluation and the bank's net deposits have increased by approximately \$55.3 million since the last evaluation. These increases were primarily due to the bank's second quarter 1996 merger with a bank in Plentywood. Otherwise, the proportion of the bank's loans and deposits has remained relatively stable since the previous evaluation.

<b>DATE</b>	<b>NET LOANS (In thousands)</b>	<b>DEPOSITS (In thousands)</b>	<b>LOAN-TO- DEPOSIT RATIO</b>
September 30, 1996	\$138,438	\$194,911	71%
June 30, 1996	\$135,497	\$189,474	72%
March 31, 1996	\$106,700	\$132,460	81%
December 31, 1995	\$103,227	\$139,534	74%

Not included in the numbers listed above are a number of residential real estate and a few commercial loans sold on the secondary market since the last evaluation. If included, the bank's quarterly loan-to-deposit ratio would have increased by a few percentage points.

As mentioned previously, the bank's quarterly average loan-to-deposit ratio is 75%. Based on quarterly ROC data, the following table identifies the asset size and quarterly average loan-to-deposit ratios for the bank and its competitors.

BANK AND LOCATION	TOTAL ASSETS (September 30, 1996) (In thousands)	QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIO
Rocky Mountain Bank Billings, Montana	\$226,933	71%
Competitor 1	\$170,638	77%
Competitor 2	\$111,616	70%
Competitor 3	\$ 42,108	59%
Competitor 4	\$ 36,549	82%
Competitor 5	\$ 28,716	77%
Competitor 6	\$ 39,081	46%

As the competitor data show, the bank competes against few similar-sized banks in its assessment areas. The first three competitors are located in the Billings assessment area; Competitors 4 and 5 are in the Harlem assessment area; and Competitor 6 is in the Plentywood assessment area. None of the competitors has offices in more than one of the bank's seven assessment areas.

The bank's quarterly average loan-to-deposit ratio is higher than three of its competitors and slightly lower than three of its competitors. According to the September 30, 1996, Uniform Bank Performance Report, the bank's September 30, 1996, loan-to-deposit ratio places the bank in the 50th percentile of its peer group. Additional competition includes branches of two regional banks and several credit unions and savings banks. In addition, some nonbank entities extend credit to residents and businesses within the bank's assessment areas. A comparison of the bank to the regional bank competitors is not meaningful because of the vast difference in the sizes of the institutions. In addition, financial information is not available for comparison for the credit unions, savings banks, and nonbank entities in the bank's assessment areas.

The many financial institutions operating within the bank's assessment areas create a very competitive credit market for the types of loans offered by the bank. As reflected by the competitor data, it appears that the demand for credit is strong and local banks are willing to extend credit to fulfill the needs of local residents and businesses.

The bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. This determination is based on the bank's consistently strong loan-to-deposit ratio and the competitive nature of lenders in its assessment areas. In addition, loan-to-deposit ratios for individual branches are consistent with or higher than the ratios of competitors in the relevant assessment areas.

Lending in the Assessment Areas

The bank's lending levels within its assessment areas exceed the standards for satisfactory performance. In the last six months, the bank made a substantial majority of its loans to residents of its assessment areas. The following table shows the percentage of total number and total dollar volume of loans located within the assessment areas.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREAS		
Loan Type	Total Number of Loans	Total Amount of Loans
Consumer	88	82

PERCENTAGE OF LOANS IN THE ASSESSMENT AREAS		
Residential Real Estate	89	88
Small Farm/Business	89	88

Because a large majority of the bank's total number and dollar volume of loans are located within its assessment areas, the bank's performance exceeds standards for satisfactory performance.

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

The bank's level of lending to borrowers of different income levels and to businesses of different sizes is reasonable and meets the standards for satisfactory performance. The following discussion analyzes the bank's lending patterns in each of the three assessment areas evaluated.

**Billings MSA Assessment Area**

The bank's level of lending by borrower income level in the Billings assessment area is reasonable. As previously discussed, CRA groups income levels into four categories: low, moderate, middle, and upper income. The following table shows the percentage of consumer and residential real estate loans made to borrowers of different income levels.

<b>DISTRIBUTION OF LOANS IN THE BILLINGS ASSESSMENT AREA BY BORROWER INCOME LEVEL*</b>				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
<b>CONSUMER</b>				
Total Number of Loans	12%	28%	16%	44%
Total Amount of Loans	11%	14%	18%	57%
<b>RESIDENTIAL REAL ESTATE</b>				
Total Number of Loans	9%	17%	40%	34%
Total Amount of Loans	5%	19%	34%	42%
*Income level is determined based on the 1996 Billings MSA median family income of \$41,800.				

The data in the table indicate that the bank made 40% of its consumer loans to low- and moderate-income borrowers. The table also shows that the bank made 16% of the consumer loans to middle-income borrowers and 44% of the consumer loans in the sample to upper-income borrowers. As previously mentioned, approximately 24% of the households in the Billings assessment area are low income, 16% are moderate income, 20% are middle income, and 40% are upper income. The bank's consumer lending to low- and moderate-income individuals equals the percentage of low- and moderate income households in the assessment area (40%). In addition, the bank's percentage of consumer lending to middle- and upper-income borrowers closely approximates the percentage of middle- and upper-income households in the assessment area. Community contacts did not note a demand for any particular types of credit among the various income categories.

The data in the table also show that the bank made 26% of its residential real estate loans to low- and moderate-income borrowers in the MSA. In addition, the table shows that the bank made 40% of the loans to middle-income borrowers and 34% of the loans in the sample to upper-income borrowers. According to HMDA data for the MSA, the bank made loans to all eight of the low- and moderate-income individuals who applied for HMDA loans in 1995. Real estate loans to low- and moderate-income borrowers equaled 14.3% of the bank's HMDA loans in 1995. This compares unfavorably to the penetration for aggregate lenders who made 27.9% of their loans to low- and moderate-income borrowers.

Although the bank's level of real estate lending to low- and moderate-income borrowers is below that of aggregate lenders, it is reasonable given the local real estate market and the bank's size and location in the market. Community contacts noted that the area has few homes for sale under \$60,000 and that the housing market for mid-priced homes was strong. Considering that a moderate-income household has an income equal to or less than \$33,440 (according to 1996 income data), the lack of housing loans to these borrowers does not appear unreasonable. Moreover, competition for those low- and moderate-income borrowers who do purchase homes in Billings is intense. In addition to the competitors detailed previously, the bank faces competition from offices of two regional banks, one large bank with a statewide branching network, several savings and loan associations, and numerous nonbank entities. These institutions, because of their substantially larger resources, are able to offer special loan products and terms that the subject bank cannot match. Finally, the bank's office in Billings is located on the western edge of the city. There are numerous other banking offices between the bank and the areas with the heaviest concentration of low- and moderate-income borrowers.

The bank provides a majority, 72%, of its business loans in the Billings assessment area to small businesses, businesses with gross annual revenues of less than \$1 million. In addition, a majority of the sampled loans in this assessment area had loan amounts of \$100,000 or less. Specifically, 76% of the loans had amounts of \$100,000 or less, 16% had amounts less than or equal to \$250,000 but greater than \$100,000, and 8% of the sampled small business loans in this assessment area had amounts greater than \$250,000 but less than \$1,000,000.

Overall, the bank's record of lending in the Billings assessment area meets the standards for satisfactory performance. As noted, consumer loans are distributed among various income groups consistent with these group's representation in the assessment area. No unusual levels of demand for any type of consumer credit was noted among any of the income categories. Real estate lending is reasonable given the lack of adequate affordable housing in the assessment area and the bank's limited ability to compete with larger lenders in the assessment area and the bank's limited ability to compete with larger lenders in the assessment area. Finally, the bank makes a substantial portion of its business loans to small businesses and for small amounts.

#### Harlem Assessment Area

The bank's level of lending by borrower income level in the Harlem assessment area is also reasonable. The following table shows the percentage of consumer loans made to borrowers of different income levels in the Harlem assessment area.

DISTRIBUTION OF LOANS IN THE HARLEM ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
<b>CONSUMER</b>				
Total Number of Loans	38%	40%	12%	9%
Total Amount of Loans	24%	39%	9%	27%
*Income level is determined based on Montana's 1996 nonmetropolitan median family income of \$34,700.				

The preceding table indicates that the bank actively makes consumer loans to a significant number of low- and moderate-income borrowers in this assessment area. The data indicate that the bank made 78% of the consumer loans in the sample to low- and moderate-income borrowers, a significantly higher percentage than the percentage of low- and moderate-income households in this assessment area. As noted previously, 31% of the households in the Harlem assessment area are low income, 18% are moderate income, 21% are middle income, and 30% are upper income. Many of the low- and moderate-income people have needs for small consumer loans.

The bank made only two residential real estate loans in the Harlem assessment area during the six months preceding the evaluation. Accordingly, an analysis of the distribution of real estate lending in this assessment area is not meaningful. The lack of activity is due primarily to lack of demand. Most housing on the Reservation is built through HUD programs that do not require bank participation. Also, according to bank management and county government officials, few people are moving into the county and the county is having difficulty retaining young residents. These factors result in very low demand for real estate loans in this assessment area.

All of the farm loans in the Harlem assessment area's CRA sample were made to small farms; all 38 borrowers have gross annual revenues of less than

\$1 million. In addition, the bank provides smaller loans to these borrowers; 87% had amounts of \$100,000 or less, 11% had amounts between \$100,000 and \$250,000, and 2% had amounts between \$250,000 and \$1,000,000.

Overall, the bank's lending in the Harlem assessment area is reasonable given the high concentration of consumer loans to low- and moderate-income borrowers, lack of demand for real estate loans, and the high percentage of loans to small farms.

**Plentywood Assessment Area**

The bank has reasonable lending levels by income level in the Plentywood assessment area. The following table shows the percentage of residential real estate and consumer loans made to borrowers of different income levels.

<b>DISTRIBUTION OF LOANS IN ASSESSMENT AREA 1 BY BORROWER INCOME LEVEL*</b>				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
<b>CONSUMER</b>				
Total Number of Loans	30%	38%	14%	18%
Total Amount of Loans	10%	46%	11%	33%
<b>RESIDENTIAL REAL ESTATE</b>				
Total Number of Loans	7%	32%	25%	36%
Total Amount of Loans	6%	34%	25%	35%
*Income level is determined based on the 1996 nonmetropolitan median family income for Montana of \$34,700.				

The preceding table indicates that the bank actively makes consumer loans to low- and moderate-income borrowers in this assessment area. As shown above, the bank made 68% of its consumer loans to low- and moderate-income borrowers, a significantly higher percentage than the percentage of low- and moderate-income households in this assessment area. As noted previously, 24% of the households in the Plentywood assessment area are low income, 19% are moderate income, 20% are middle income, and 37% are upper income. The data also indicate that the bank made 14% of the consumer loans to middle-income borrowers and 18% to upper-income borrowers.

The bank's level of lending to low- and moderate-income residential real estate borrowers is much lower than its consumer lending levels. In the last six months, the bank made 39% of its Plentywood assessment area residential real estate loans to low- and moderate-income borrowers. However, given the relatively small number of real estate loans made by the Plentywood office in the past six months, only 28, these statistics are of limited value.

All of the farm loans in the Plentywood assessment area's CRA sample were made to small farms; all 95 borrowers have gross annual revenues of less than \$1 million. In addition, the bank provides smaller loans to these borrowers; 96% had amounts of \$100,000 or less and 4% had amounts between \$100,000 and \$250,000.

Overall, the bank's lending in the Plentywood assessment area is reasonable given the high percentage of consumer loans to low- and moderate-income borrowers and the high percentage of loans to small farms. Community contacts did not identify any unmet credit needs or comment on heavy loan demand by particular income groups.

**Conclusion**

Overall, the bank's level of lending to borrowers of different income levels meets the standards for satisfactory performance. As explained previously, greater weight is placed on the performance of the non-MSA offices than on the Billings office. Consumer lending in the Harlem and Plentywood assessment areas is heavily concentrated in loans to low- and moderate-income borrowers reflecting the need for small loans to consumers in these assessment areas. While real estate lending to low- and moderate-income borrowers is somewhat lower, the level is reasonable in light of the lack of demand for such loans in Harlem and Plentywood and the lack of affordable housing and strong competition for real estate loans in Billings. Finally, the heavy concentration of small business and small farm loans indicates the bank is actively supporting this sector of the economy in each assessment area.

#### Geographic Distribution of Loans

The distribution of the bank's loans in geographies of different income levels is reasonable and meets the standards for satisfactory performance. The following discussion reviews the bank's lending patterns by geography in each assessment area.

**Billings MSA Assessment Area**

The bank's distribution of lending to geographies of different income levels in the Billings assessment area is acceptable given the bank's size and location in the assessment area. As previously discussed, the Billings assessment area contains two low-income tracts and four moderate-income tracts. According to the 1990 census data, the percentage of the assessment area's population distribution by the income level of census tracts was 4% low income, 14% moderate income, 64% middle income, and 18% upper income. All of the low- and moderate-income tracts are adjacent to one another. These tracts include much of downtown Billings and the southern section of the city. These sections are primarily commercial and industrial having only 4,048 owner-occupied housing units, 13.8% of the MSA total. As the following chart shows, the bank has most of its loans in the middle- and upper-income tracts.

<b>DISTRIBUTION OF LOANS IN BILLINGS ASSESSMENT AREA BY INCOME LEVEL OF CENSUS TRACT</b>				
<b>BILLINGS ASSESSMENT AREA</b>				
<b>Loan Type</b>	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>
<b>Consumer Loans:</b>				
Percentage of Total Loans	4%	4%	76%	16%
Percentage of Total Loan Amounts	1%	1%	73%	25%
<b>Residential Real Estate Loans:</b>				
Percentage of Total Loans	0%	6%	74%	20%
Percentage of Total Loan Amounts	0%	4%	76%	20%
<b>Small Business Loans:</b>				
Percentage of Total Loans	9%	9%	65%	17%
Percentage of Total Loan Amounts	4%	8%	64%	24%

The table shows that 8% of the sampled consumer loans were made in low- and moderate-income census tracts. The table also shows that the bank did not make any residential real estate loans in low-income census tracts and only 6% of its residential real estate loans in moderate-income census tracts. In 1995, the bank made one of its HMDA loans, 1.8% of total HMDA loans, in low- or moderate-income census tracts. This compares unfavorably to the aggregate lenders who made 12.8% of HMDA reportable loans in low- and moderate-income tracts. Finally, the table shows that 18% of small business loans were made in low- and moderate-income census tracts.

Although the level of lending in low- and moderate-income tracts is low for all types of loans, this distribution is reasonable given the location and size of the bank's Billings office. The bank's office is located on the western side of Billings near a large shopping mall. The low- and moderate-income tracts are in the southern and eastern sections of the city. Numerous other financial institutions are located in or nearer to these tracts than subject bank. Accordingly, it is reasonable that few consumers or business owners would travel past numerous financial institutions in order to reach the bank's office.

Second, the bank's Billings office is very small, representing less than 20% of the bank's total assets. The bank's small size in a highly competitive market dominated by several very large organizations hinders its ability to compete for loans in low- and moderate-income areas. Not only do many of these institutions have offices near these census tracts, but several have the resources to develop special products geared toward low- and moderate-income

residents.

Based on the above, the bank's distribution of loans between geographies of different income levels in the Billings assessment area is reasonable.

**Harlem Assessment Area**

The bank has a reasonable distribution of loans among this assessment area's geographies. The Harlem assessment area has two moderate-income BNAs where about 58% of the assessment area's residents live. The assessment area also includes one middle-income BNA that contains the remaining 42% of the population. The table below shows the distribution of the Harlem assessment area's loans among these three BNAs.

<b>DISTRIBUTION OF LOANS IN THE HARLEM ASSESSMENT AREA BY BNA INCOME LEVEL*</b>		
Loan Type	Moderate Income	Middle Income
<b>CONSUMER</b>		
Total Number of Loans	94%	6%
Total Amount of Loans	76%	24%
<b>SMALL FARM</b>		
Total Number of Loans	76%	24%
Total Amount of Loans	45%	55%
*The Harlem assessment area contains no low- or upper-income BNAs.		

As shown above, the bank made 94% of its consumer and 76% of its small farm loans in the Harlem assessment area's moderate-income BNAs. As noted previously, an analysis of real estate loan distribution is not meaningful because only two loans from this assessment area were reviewed. Given that 58% of the assessment area's residents live in these tracts, the bank's level of lending compares favorably with the area's population distribution. The bank's lower level of lending in the middle-income BNA can be attributed to the fact that of the three banks in Blaine County, two are located in the middle-income BNA, while the subject bank is located in a moderate-income BNA.

Both moderate-income BNAs are closer to the subject bank than to the other banks in the assessment area. Overall, the bank's lending across BNAs of different income levels in the Harlem assessment area is reasonable given the high level of lending in the moderate-income BNAs in the assessment area and high level of banking competition in the middle-income geography.

**Plentywood Assessment Area**

The bank has a reasonable distribution of loans among the Plentywood assessment area's geographies. As previously discussed, this assessment area has one moderate-income BNA where approximately 20% of the assessment area's residents live. The assessment area also includes two middle-income BNAs that contain the remaining 80% of the county's population. The bank's Plentywood branch is located in a middle-income BNA. The table below shows the distribution of the Plentywood assessment area loans among these three BNAs.

<b>DISTRIBUTION OF LOANS IN THE PLENTYWOOD ASSESSMENT AREA BY BNA INCOME LEVEL*</b>		
Loan Type	Moderate Income	Middle Income
<b>CONSUMER</b>		

Total Number of Loans	3%	97%
Total Amount of Loans	4%	96%
<b>RESIDENTIAL REAL ESTATE</b>		
Total Number of Loans	0%	100%
Total Amount of Loans	0%	100%
<b>SMALL FARM</b>		
Total Number of Loans	5%	95%
Total Amount of Loans	2%	98%
*The Plentywood assessment area contains no low- or upper-income BNAs.		

As shown above, the percentage of bank lending in the moderate-income BNA in this assessment area is quite low. The bank only made 3% of its consumer and 5% of its small farm loans in the Plentywood assessment area's moderate-income BNA. The table also shows that the bank did not make any residential real estate loans in the moderate-income BNA.

The fact that the bank has extended fewer consumer and small farm loans and no residential real estate loans to borrowers from the moderate-income BNA is mitigated by at least two factors. First, the Plentywood branch is centrally located within its defined assessment area. The moderate-income BNA, located in the southern section of the assessment area, is served by a credit union in Medicine Lake, Montana, and a bank in Froid, Montana, which is a few miles from Sheridan County's southern boundary. The bank's lending in the moderate-income BNA likely reflects the location of competitors in and near the southern section of the bank's assessment area. Second, the moderate-income BNA is sparsely populated with only 945 residents and the demand for residential real estate loans is extremely limited. Although the bank's lending activity in the moderate-income BNA is low, it seems reasonable given the lack of population and location of competitors in this BNA and meets the standards of satisfactory performance.

### **Conclusion**

Overall distribution of lending between geographies of different income levels meets the standards for satisfactory performance. Limited lending in low- and moderate-income geographies in the Billings and Plentywood assessment areas is explained by the location of the bank offices in those areas and competitive conditions in the communities. Likewise, the concentration of the Harlem office's loans in the moderate-income BNAs is largely the result of the location of the office relative to other institutions. The overall lending patterns for the three offices demonstrate that the bank actively lends to residents, BNAs, and census tracts of all income categories.

### General Comments

The evaluation did not reveal any substantive violations of fair lending laws or regulations. The evaluation revealed procedural violations of the technical aspects of HMDA and two isolated violations of the technical aspects of Regulation B. Bank management promised to correct the violations promptly. In addition, the bank has received no CRA-related complaints since the previous evaluation.

## **PUBLIC DISCLOSURE**

December 2, 1996  
Date of Evaluation

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### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Rocky Mountain Bank  
Name of Depository Institution

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093001170000  
Identification Number of Institution

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Billings, Montana  
Address of Institution

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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.