

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 Security Bank of Laurel, Laurel, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of August 19, 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 reasons justify the bank's satisfactory CRA rating. First, the bank has maintained a reasonable loan-to-deposit ratio since the last evaluation. Second, it has originated a substantial portion of its loans within its assessment area. Third, it lends a reasonable percentage of its loans to low- and moderate-income residents and to small businesses and farms. Finally, the distribution of the bank's loans among geographies of different income levels conforms with the assessment area's population distribution.

The following table indicates the performance level of First Security Bank of Laurel, Laurel, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST SECURITY BANK OF LAUREL LAUREL, 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 meet the credit needs of assessment area residents effectively. The bank received a satisfactory CRA rating at its last evaluation. Its only office is located in Laurel, Montana, a community of about 6,500 residents. Since the last evaluation, the bank added two cash-dispensing automated teller machines at retail operations in Laurel and implemented a 24-hour telephone banking service.

The bank's asset size has increased since the last evaluation. Based on its June 30, 1996, Report of Condition ("ROC"), the bank's assets totaled about \$21.6 million, almost \$3 million more than the last evaluation. According to the same ROC, a significant percentage of its loan portfolio consists of commercial loans. Approximately 38% of the portfolio is commercial loans and another 25% is agricultural loans. The remainder of the portfolio contains 19% consumer real estate, 11% other, 6% consumer, and 1% commercial real estate loans.

The bank offers a variety of credit products that help serve the credit needs of assessment area residents. It provides agricultural, commercial, consumer, and residential real estate loans. It also originates loans guaranteed by the Small Business Administration and Farm Service Agency. In addition, the bank refers applicants interested in secondary-market real estate loans to a Billings, Montana, mortgage company.

DESCRIPTION OF FIRST SECURITY BANK OF LAUREL'S ASSESSMENT AREA

The bank's assessment area includes portions of Yellowstone, Stillwater, and Carbon counties in south-central Montana. Its Yellowstone County portion consists of three census tracts (14, 16, and 19) that are part of the Billings Metropolitan Statistical Area ("MSA"). Census tract 16 includes a small portion of the Crow Indian Reservation ("Reservation"). This section of the Reservation has no towns and few residents. Although its census tracts surround Billings, the assessment area does not include the city. Laurel is located in census tract 19. The remainder of the assessment area includes block numbering areas ("BNA") 9662, 9663, and 9664 in Stillwater County and 9652, 9653, 9654, and 9655 in Carbon County.

CRA divides income levels into four categories: low, moderate, middle, and upper income. The categorization of a borrower or geography's income is determined relative to the statewide nonmetropolitan median family income for non-MSA areas and the MSA median family income for MSA areas. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan or MSA 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 at least 80% but less than 120% of the statewide nonmetropolitan or MSA median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan or MSA 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 the 1990 census, the assessment area has 27,716 residents. Based on the same census, its median family income is \$28,850 and its median household income is \$24,407. Montana's nonmetropolitan median family income is \$27,352 and the MSA's median family income is \$31,534 as of the 1990 census. Almost half the assessment area's residents are upper income. Specifically, of the 10,267 households in the assessment area, approximately 21% are low income, 18% are moderate income, 19% are middle income, and 41% are upper income. Approximately 9% of the assessment area's families and 13% of its households live below the poverty level.

The assessment area includes one moderate-income BNA (9655); the remainder of

the area has middle-income census tracts and BNAs. BNA 9655 contains only 3% of the assessment area's total population and is located on the outer edge of the assessment area. In addition, there are several financial institutions located closer to this BNA than the bank. Several of the other outlying BNAs are large, sparsely populated geographic areas.

Laurel's economy has remained strong primarily because of its status as a Billings bedroom community. Although many residents work in Billings, agricultural, railroad, and oil refinery operations employ most of the local individuals. Local agricultural commodities include sugar beets, wheat, barley, and cattle. According to bank management, all sectors of the local agricultural economy except cattle are stable. Continued low cattle prices have hurt local ranchers.

Bank management and community contacts described Laurel's housing market as tight. Although there are a fair number of available homes priced at more than \$100,000, few homes are available for less than this amount. The community also suffers from a lack of affordable rental housing. People often must live in Billings to find rental housing. An influx of new residents has strained the city's water treatment and other services. According to one community contact, Laurel's school district continues to monitor the city's population growth.

The bank operates in a very competitive banking market. Among its competitors are another bank, a federal savings bank, and two credit unions. In addition, Billings has a large number of financial institutions, including several large, regional banks. According to bank management, many residents work and bank in Billings. The local credit unions provide a significant amount of competition for local residents' consumer banking business.

Examiners contacted community members who provided information used in the CRA evaluation process. These community contacts included a local businessperson, a government representative, and individuals familiar with credit needs on the Reservation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of assessment area residents is satisfactory. As part of this analysis, examiners conducted a statistical review of commercial and agricultural loans originated in the last six months and consumer real estate and consumer loans originated since the last evaluation.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. Since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 61%. Although the bank's deposits have increased since the previous evaluation, its loans have remained relatively stable. The following chart, based on quarterly ROC data, shows the bank's level of lending and deposit activity since the previous evaluation.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	LOAN-TO- DEPOSIT RATIO
June 30, 1996	\$11,649	\$19,827	59%
March 31, 1996	\$11,161	\$19,628	57%
December 31, 1995	\$11,377	\$18,808	60%
September 30, 1995	\$11,437	\$17,989	64%

June 30, 1995	\$11,027	\$16,737	66%
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Although the bank does not originate loans for sale on the secondary market, it does assist individuals interested in applying for such loans. The bank helps the applicant complete an application and then sends the information to a Billings secondary-market provider. The bank has only two loan officers, and management indicated that the bank does not have the resources or expertise to originate complicated real estate loans.

The bank's loan-to-deposit ratio exceeds that of one of its main Laurel competitors. The following chart shows the bank's ratio in comparison to this competitor and the two additional independent banks located within its assessment area. The table reflects information obtained from quarterly ROC data for the individual banks.

BANK NAME	June 30, 1996 TOTAL ASSETS (In thousands)	QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIO
Subject Bank	\$21,574	61%
Competitor A	\$66,325	46%
Competitor B	\$16,022	73%
Competitor C	\$41,791	55%

As illustrated in the chart, the bank's loan-to-deposit ratio exceeds all but one of its competitors. Although its assessment area does not include Billings, the bank competes with Billings financial institutions. Because of the size of most of these institutions, they are not included in the comparisons. Because the bank's ratio compares favorably with its competitors and community contacts did not identify any unmet credit needs in the assessment area, the bank's loan-to-deposit is reasonable. As such, it meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending performance within its assessment area meets the standards for satisfactory performance. The bank provides a majority of its loans within its assessment area. The following chart shows lending inside and outside the assessment area based on percentage of total number of loans and total dollar volume of loans.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA

Loan Type	Total Number of Loans	Total Amount of Loans
Consumer Real Estate	65	63
Consumer	82	76
Commercial/Agricultural	79	63

As shown above, the bank has a majority of its loans within its assessment area. Most of the bank's consumer and commercial and agricultural borrowers live within the assessment area. This fact is significant considering that most of the bank's loan portfolio contains commercial and agricultural loans.

As shown, the bank has fewer consumer real estate borrowers in its assessment area. According to bank management, the bank's real estate construction loan business has increased significantly in recent years. Several of these borrowers live in Billings. Bank management explained that few large area banks provide real estate construction loans and they refer construction borrowers to the bank. In addition, the bank originates a small number of real estate loans each year. Because the bank makes most of its loans within its assessment area, its lending performance meets the standards of 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 of satisfactory performance. As discussed, CRA groups income into four categories: low, moderate, middle, and upper income. The following table, based on borrower income level, reflects the bank's lending patterns to borrowers of different incomes.

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	12%	6%	24%	59%
Total Amount of Loans	7%	0%	10%	83%
CONSUMER				
Total Number of Loans	23%	23%	36%	19%
Total Amount of Loans	13%	20%	23%	44%
*Income level is determined based on Montana's 1995 nonmetropolitan median family income of \$32,200 and the MSA median family income of \$38,000.				

As shown above, the bank made 46% of its consumer loans to low- and moderate-income individuals. This figure is reasonable given that 39% of the assessment area's households have low and moderate incomes. In addition, bank management indicated that intense competition makes obtaining consumer loan customers difficult.

The bank provides many more consumer real estate loans than consumer loans to upper-income individuals. While the bank made only 19% of its consumer loans to upper-income borrowers, it made 59% of its consumer real estate loans to these individuals. Only 18% of these loans went to low- and moderate-income borrowers. Based on 1995 Home Mortgage Disclosure Act ("HMDA") data, the bank made three of its six MSA loans to low- and moderate-income individuals. Based on 1994 HMDA data, the bank made 6 of its 14 MSA loans to low- and moderate-income individuals.

Although the bank makes few consumer real estate loans to low- and moderate-income borrowers, valid reasons explain this fact. First, because of resource issues, the bank does not originate government-guaranteed real estate loans that are attractive to low-income borrowers. To meet this credit need, the bank refers applicants to a Billings secondary-market provider. Although the bank provides this service to its customers, our loan sample did not include these borrowers because the bank did not originate their loans. Second, community contacts and bank management explained that Laurel suffers from a shortage of affordable homes. However, the community has a sufficient supply of homes priced at more than \$100,000. As a result, it seems likely that most of the community's real estate borrowers are middle and upper income.

Almost all of the bank's commercial and agricultural borrowers have gross annual revenues of less than \$1 million. Based on the sampled commercial and agricultural loans, the bank made 96% of the total number of loans to small businesses and farms. Approximately 78% of the total dollar volume of sampled loans went to business and farm borrowers with less than \$1 million in gross annual revenues. Based on a review of loan size, about 85% of the loans had amounts of \$100,000 or less. Another 13% had amounts between \$100,000 and \$250,000, and the remaining 2% of loans had amounts greater than \$250,000. Because of the bank's reasonable level of lending to low- and moderate-income borrowers and to small businesses and farms, the bank's lending performance meets the standards of satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's lending in geographies of different income levels meets the standards for satisfactory performance. As discussed, the bank's assessment area has one moderate-income BNA and nine middle-income BNAs and census tracts. The moderate-income BNA has 817 residents who represent only 3% of the assessment area's total residents. As shown in the following table, the bank makes few loans in this moderate-income BNA.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT OR BNA INCOME LEVEL*		
Loan Type	Moderate-Income BNA	Middle-Income BNAs & Tracts
CONSUMER REAL ESTATE		
Total Number of Loans	0%	100%
Total Amount of Loans	0%	100%
CONSUMER		
Total Number of Loans	0%	100%
Total Amount of Loans	0%	100%
COMMERCIAL		
Total Number of Loans	4%	96%
Total Amount of Loans	5%	95%
*The bank's assessment area includes no low- or upper-income BNAs or census tracts.		

The bank's lending levels in the moderate-income BNA are reasonable given several factors. First, the BNA has only a small percentage of the assessment area's population and contains mostly ranch land. As such, it seems reasonable that the bank would have only a small number of loans in this area. Second, the BNA is located on the outer edge of the assessment area. Few BNA residents travel to Laurel for banking services because several other financial institutions are more accessible. Because the bank's lending patterns in its moderate-income BNA and middle-income BNAs and census tracts resemble the area's population distribution, the bank's performance meets satisfactory standards.

GENERAL

The evaluation did not reveal any substantive violations of fair lending laws and regulations. The evaluation revealed isolated violations of the technical aspects of HMDA. Bank management agreed to institute procedures to prevent similar violations from recurring. In addition, the bank has not received any CRA complaints.

PUBLIC DISCLOSURE

August 19, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Security Bank of Laurel
Name of Depository Institution

093006670000
Identification Number of Institution

Laurel, 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.