

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 Ronan State Bank, Ronan, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of January 29, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

The bank is rated outstanding based on a variety of factors. First, the bank has a relatively high loan-to-deposit ratio after considering loans sold since the last evaluation. Second, almost all the bank's loans are located within the bank's assessment area. Finally, the bank's investments and services significantly enhance credit availability in its assessment area.

The following table indicates the performance level of Ronan State Bank, Ronan, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Ronan State 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 CRA 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. In addition to its main office in Ronan, the bank operates a full-service branch in Pablo, Montana, a community that serves as the headquarters of the Confederated Salish and Kootenai Tribes of the Flathead Indian Reservation ("Tribe"). The bank also operates three automated teller machines ("ATMs"), two in Ronan and one in Pablo.

The bank's size supports its ability to meet credit needs in its assessment area. Based on December 31, 1995, Report of Condition ("ROC") information, the bank's assets totaled slightly more than \$67 million. As of December 31, 1995, more than one-third of the bank's loans went to commercial borrowers. Another 10% of its loans went to commercial real estate borrowers. The remainder of its loan portfolio includes 19% agricultural, 13% consumer real estate, 13% consumer, 5% agricultural real estate, and 3% other loans. The bank's size and loan mix has remained relatively constant since the last evaluation.

The bank offers many different types of loan products. In addition to offering a variety of commercial and agricultural loan types, the bank offers the following consumer real estate products: construction, mobile home, adjustable rate mortgage, Federal Housing Administration ("FHA"), Department of Veterans Affairs, and Montana Board of Housing loans. The bank also offers Small Business Administration ("SBA") and Bureau of Indian Affairs loans. In 1995, the bank ranked as the ninth largest SBA lender in Montana. The bank also provides closed- and open-end loans for a variety of consumer purposes.

DESCRIPTION OF RONAN STATE BANK'S ASSESSMENT AREA

The bank's assessment area boundaries follow those of the Flathead Indian Reservation and Lake County. As such, the assessment area includes all of Lake County, census tract 5 in Flathead County, census tract 16 in Missoula County, and block numbering area ("BNA") 9966 in Sanders County. Two Lake County BNAs (9955 and 9956) and the Sanders County BNA are designated moderate-income. The Missoula County census tract is considered upper-income and the remaining five BNAs and one census tract in the assessment area are middle-income.

The bank's assessment area is north of Missoula, Montana, in the state's Mission Valley region. Most of its residents live in its eastern and northern portions. The western section of the assessment area has few residents. The assessment area's northern section includes most of Flathead Lake ("Lake"), while the Mission Mountains border its eastern section. As of the 1990 U.S. census, the entire assessment area has 31,028 residents, 1,547 of whom live in Ronan.

The area's economy is diverse. While agriculture continues to support the region, tourism has become a large factor in the local economy. Major agricultural commodities in the area include cattle, sheep, hay, certified seed potatoes, small grains, and timber. The area continues to draw tourists to the Lake, mountains, and nearby Glacier National Park. In addition to tourists, the region has experienced population growth as retirees and others have relocated to the area. As a result, finding affordable housing in the area continues to be a problem.

As a relatively prosperous Indian tribe, the Tribe supports a large portion of the local economy. In addition to employing more than 200 people at its tribal headquarters, the Tribe owns and operates several businesses, including a resort and an electronics company. The Tribe also operates a community college that has about 1,100 enrolled students. Local development information as of October 1994 identifies the Tribe as the region's major employer.

Examiners contacted two members of the community as part of the bank's CRA evaluation. Information from the contacts was used in evaluating the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

Loan-to-Deposit Ratio Analysis

The bank's loan-to-deposit ratio is more than reasonable considering area credit needs and the bank's size and lending patterns. Since the previous evaluation, the quarterly average of the bank's loan-to-deposit ratios is 67%. The bank's quarterly average ratio compares favorably to the quarterly average ratios of three competitors. According to quarterly Uniform Bank Performance Report information since the last evaluation, the three competing banks had the following quarterly average loan-to-deposit ratios: 85%, 73%, and 66%. The bank with the highest ratio experienced notable loan growth since June 1994. The following chart, based on quarterly ROC data, shows the range in the bank's ratios since the last evaluation:

Date	Gross Loans (In thousands)	Deposits (In thousands)	Loan-to-Deposit Ratio
December 31, 1995	40,947	59,161	69%
September 30, 1995	43,650	58,866	74%
June 30, 1995	41,065	61,177	67%
March 31, 1995	38,777	59,635	65%
December 31, 1994	38,233	63,795	60%
September 30, 1994	39,745	60,536	66%
June 30, 1994	39,898	59,220	67%

The loan-to-deposit ratios identified in the above chart do not include the large volume of loans sold by the bank since the last evaluation. Adding the real estate loans sold since the last evaluation to the loans as of December 31, 1995, increases that quarter's loan-to-deposit ratio to 89%. The bank also sells SBA loans each year.

As discussed previously under Description of Institution section, the bank offers a large variety of loan products that benefit the community. Specifically, the bank has originated several community development loans since the last evaluation. Its most notable community development loans went to a local housing authority for several low- and moderate-income housing projects. For instance, the bank provided construction financing and arranged permanent financing for a duplex and a four-unit apartment in 1994. The bank provided permanent gap financing for both projects by taking second mortgage liens on the properties. The bank also provided a loan in early 1995 for additional housing units. In mid-1995, the bank financed an FHA loan for a low-income single-family rental home.

In addition to these loans, the bank has committed funds to a loan pool for housing rehabilitation purposes. The bank works with the housing authority to provide home improvement loans to low- and moderate-income individuals. Since the last evaluation, the bank provided several loans under this program. Given the need for affordable housing in the assessment area, these loans are an especially significant contribution to local credit needs.

In addition, the bank provided several SBA loans to small businesses in 1995. The SBA presented the bank with the 1995 Minority Lender of the Year Award; an award given to the Montana financial institution that best serves minority-owned businesses. In 1995, the bank provided SBA loans to four American Indian firms and one Hispanic firm.

Lending in Assessment Area

In the last six months, the bank made almost all its loans within its assessment area. The bank made more than 90% of its consumer and commercial and agricultural loans within its assessment area. Based on the total number of loans, the bank made 96% of its consumer loans within its assessment area. Based on total dollar volume, the bank made 93% of its consumer loans in its assessment area. The bank made 92% of the total number and 90% of the total dollar volume of commercial and agricultural loans within its assessment area.

Although the bank made only 71% of the total dollar volume of consumer real estate loans within its assessment area, it made 85% of the total number of such loans within its assessment area. The total dollar volume percentage of loans is lower because the bank made several relatively large real estate loans outside its assessment area. In contrast, the bank made a large number of small real estate loans within its assessment area.

Based on this information, the bank has a very high percentage of loans within its assessment area.

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

The bank has a very good record of lending to borrowers of different income levels and businesses of different sizes. CRA categorizes income levels into four categories: low-income, moderate-income, middle-income, and upper-income. Low-income individuals have incomes less than 50% of the median income while moderate-income individuals have incomes at least 50% but less than 80% of the median income. The regulation defines a middle-income individual as one with an income at least 80% but less than 120% of the median income. An individual with an income that is 120% or more of the median income is considered an upper-income person. Because the assessment area is not in a metropolitan statistical area, the median family income is assessed

relative to the statewide nonmetropolitan median family income, which is \$27,352. Assessment area median family income is \$24,913, while the median household income for the assessment area is \$21,254. Of the 11,485 total households in the assessment area, approximately 23% are low income, 19% are moderate income, 16% are middle income, and 42% are upper income. Approximately 19% of the households have incomes below the poverty level.

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	4%	13%	30%	52%
Total Amount of Loans	1%	9%	23%	67%
CONSUMER				
Total Number of Loans	33%	29%	22%	16%
Total Amount of Loans	22%	26%	19%	32%

As shown above, the bank made a large percentage of its consumer loans to low- and moderate-income borrowers. However, the bank made few consumer real estate loans to low- and moderate-income borrowers. In fact, the bank made slightly more than half its consumer real estate loans to upper-income borrowers. While consumer lending to low- and moderate-income borrowers exceeds the representation of these borrowers in the assessment area, the relatively small representation of consumer lending in the portfolio limits the impact of this activity on the assessment of the bank's performance.

These lending patterns more than likely reflect the demand for loans from these income groups. As discussed previously under Description of Ronan State Bank's Assessment Area, low- and moderate-income individuals in the Mission Valley area have great difficulty finding affordable housing. Housing values in the area have continued to increase as more individuals move to the area and, as a result, increase the demand for housing. Respondents to a survey conducted by a local housing authority identified the need to increase the supply of single-family homes as their highest housing-related priority. With affordable housing in such demand, it seems reasonable that the bank would make a higher percentage of its real estate loans to higher-income individuals.

The bank's level of consumer lending reflects the demographics of and loan demand in the bank's assessment area. Despite having some wealthy residents, about 39% of the families in the assessment area have low or moderate incomes. The bank's consumer lending patterns reflect this demographic fact. Based on the sample results, the bank made 33% of its consumer loans to low-income borrowers. Another 29% of these loans went to moderate-income borrowers. As such, low- and moderate-income borrowers received almost two-thirds of the bank's consumer loans made in the last six months.

The bank provides most of its commercial and agricultural loans to small businesses and farms. In fact, most of the bank's commercial and agricultural borrowers have gross annual revenues of \$1 million or less. Based on a sample of commercial and agricultural loans, only six borrowers had gross annual revenues that exceeded \$1 million. Most of the remaining borrowers received

relatively small loans. About 91% of these loans had loan amounts less than \$100,000; 83% had loan amounts of \$50,000 or less. Only 6% had loan amounts of at least \$100,000 but less than \$250,000 and only 3% had loan amounts greater than \$250,000. These lending patterns seem reasonable given that the assessment area has few large businesses. Based on U.S. census data for 1992 county business patterns, the bank's assessment area has only six businesses that employ 500 or more employees. The assessment area has 155 businesses that employ between 50 and 499 individuals. However, the vast majority of businesses (5,931) have between 1 and 49 employees.

Geographic Distribution of Loans

The distribution of the bank's loans throughout its assessment area is reasonable. As discussed previously, the bank's assessment area includes three moderate-income BNAs, one middle-income census tract, five middle-income BNAs, and one upper-income census tract. The bank's offices are located in middle-income BNAs. Although the following chart shows that the vast majority of the bank's loans are within middle-income BNAs and tracts, the bank has a reasonable percentage of its loans in moderate-income BNAs.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA OR CENSUS TRACT INCOME LEVEL*			
Loan Type	Moderate- Income BNA	Middle-Income BNA or Tract	Upper-Income Tract
COMMERCIAL & AGRICULTURAL			
Total Number of Loans	24%	76%	0%
Total Amount of Loans	14%	86%	0%
CONSUMER REAL ESTATE			
Total Number of Loans	24%	74%	2%
Total Amount of Loans	23%	74%	3%
CONSUMER			
Total Number of Loans	19%	81%	0%
Total Amount of Loans	11%	89%	0%

*The bank's assessment area includes no low-income BNAs or census tracts.

The bank's distribution of loans within its assessment area is reasonable given the assessment area's demographics. For example, approximately 21% of the assessment area's 31,028 residents live in moderate-income BNAs. In comparison, about 65% of the residents live in middle-income BNAs or tracts and only 14% live in the upper-income tract. Given this population density information, the distribution of the bank's loans in its moderate- and middle-income BNAs and tracts accurately reflects the location of assessment area residents. Although the sample revealed few loans in the upper-income tract, this seems reasonable given the location of the tract; residents of this tract live closer to Missoula than Ronan.

Investments and Services

The bank's level of qualified investments and services significantly improves individuals' access to credit in the assessment area. Since the last evaluation, the bank has made several notable contributions. In early 1994, the bank committed to supporting a local housing authority with grant funds. Although the bank provided half these funds prior to the last evaluation, the remainder of the grant has been provided since the last evaluation. In early 1995, the bank made an additional contribution to match funds used for rental assistance to low-income families. In addition, the bank provides technical assistance to housing authority employees on a regular basis. Such assistance includes reviewing housing and loan applications. Officials of the housing authority consider the bank a major supporter of its community development efforts.

The bank also provides regular financial contributions to a local YMCA organization. Bank staff believes the organization serves many low- and moderate-income individuals. The staff estimates that more than half the children enrolled in the YMCA's programs cannot afford required membership fees. Since the last evaluation, the bank also donated funds for a tribal facility to install a sprinkler system. This can also be considered a qualified investment since, according to bank employees, many tribal members have low or moderate incomes. Finally, the bank contributed funds to a volunteer fire department located in a moderate-income BNA.

The bank's branch and ATM locations also significantly enhance credit availability in its assessment area. As previously discussed, the bank operates two full-service offices, one in Ronan and another in Pablo. Both locations are centrally located in the assessment area and are accessible to individuals living in the assessment area's moderate-income BNAs. The Pablo branch is located near tribal headquarters and the Tribe's college. Individuals may obtain all bank services at the branch location. The bank added an ATM in Pablo and another in Ronan since the last evaluation. The bank operates another ATM in Ronan near its main office location.

General Comments

The evaluation did not reveal any substantive or technical violations of fair lending rules and regulations. In addition, the bank has not received any complaints relating to its CRA performance since the last evaluation.

PUBLIC DISCLOSURE

January 29, 1996

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Ronan State Bank

Name of Depository Institution

093008750000

Identification Number of Institution

Ronan, 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.