

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 Lake County Bank, St. Ignatius, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of August 26, 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 bank's satisfactory rating is based on several factors. First, the bank has maintained a solid loan-to-deposit ratio since the previous evaluation. Second, the bank has a substantial majority of its agricultural and commercial and consumer loans in its assessment area. Third, the bank's lending to borrowers of different income levels and to businesses of different sizes follows the income patterns of the assessment area. Finally, the bank actively lends in the moderate-income block numbering areas ("BNA") in the assessment area. This lending pattern seems appropriate given the bank's location within a moderate-income BNA.

The following table indicates the performance level of Lake County Bank, St. Ignatius, Montana, with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | LAKE COUNTY BANK ST. IGNATIUS, 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 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 its size and financial condition, the bank is able to effectively meet the credit needs of the communities in its assessment area. At the previous evaluation, the bank was rated satisfactory in helping to meet the credit needs of its community. It has two cash-only automated teller machines ("ATM"). One is located in St. Ignatius and the other is in Arlee, Montana.

According to the bank's June 30, 1996, Report of Condition ("ROC"), its total assets are \$19.8 million and its total deposits are \$17 million. The bank's volume of loans and deposits have remained stable since the previous evaluation. The bank's loan portfolio consists of 37% agricultural, 31% commercial, 20% consumer, 11% real estate, and 1% other loans. Since the previous evaluation, the percentage of residential real estate loans in the portfolio has increased, while the percentage of commercial loans has decreased.

The bank offers many types of loan and deposit products that serve assessment area credit needs. The loan products include commercial, agricultural, consumer, and residential real estate loans. The service hours of the bank are sufficient to meet the deposit and credit needs of the assessment area.

DESCRIPTION OF THE ASSESSMENT AREA FOR LAKE COUNTY BANK, ST. IGNATIUS, MONTANA

The bank defines its assessment area as the southern portion of Lake County, Montana, which is the county's Mission Valley region. The assessment area includes three BNAs. The bank's main office and ATM in Arlee are in BNA 9956. The remaining BNAs in the assessment area are 9955 and 9954. BNAs 9956 and 9955 are classified as moderate income, and BNA 9954 is classified as middle income. BNA 9956 covers the southern tip of Lake County; BNAs 9955 and 9954 are directly north of this BNA. The two moderate-income BNAs are geographically closer to the bank than the one middle-income BNA. According to 1990 census data, the assessment area's population is 10,948. Approximately 44% of the assessment area's population resides in the moderate-income BNAs. The three largest towns in the assessment area are Ronan, St. Ignatius, and Arlee, Montana.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower's or geography's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% of the statewide nonmetropolitan median family income is considered upper income. BNAs are classified using similar categories based on the level of the median family income in the geography. The 1990 census data indicates that Montana's statewide nonmetropolitan median family income is \$27,352. According to 1995 Department of Housing and Urban Development data, the statewide nonmetropolitan median family income in Montana is \$32,200.

As previously mentioned, the bank's assessment area includes two moderate-income BNAs and one middle-income BNA. According to 1990 census data, the assessment area's median family income is \$21,884, while its median household income is \$19,543. Approximately 22% of the households and 20% of the families residing within the assessment area have incomes below the poverty level. Of the 3,766 households in the assessment area, 29.9% are low income, 16.4% are moderate income, 19.4% are middle income, and 34.3% are upper income.

The bank's assessment area is located on the Flathead Indian Reservation. The Confederated Salish and Kootenai Tribes of the Flathead Indian Reservation ("Tribes") are prosperous and contribute significantly to the economic prosperity of the area. It employs approximately 200 individuals and operates a community college, resort, and electronics company.

The economy in the assessment area remains stable and strong. Its economic stability is attributed to the diversity of local industries and employers. However, agriculture remains the primary local industry. The agricultural sector is composed of livestock production, crops, and timber. Major employers in the area include the Tribes, the school district, and a sawmill. The assessment area is experiencing a shortage of affordable housing because of population growth in its northern sector. Bank management indicated that St. Ignatius and Arlee have not experienced as much population growth as Ronan, Montana, and towns located closer to Flathead Lake.

Examiners contacted several members of the community, including local government officials and individuals familiar with credit needs of members of the Tribes, as part of this CRA evaluation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs in its assessment area is considered satisfactory. The criteria detailed below were reviewed in determining this rating.

Loan-to-Deposit Ratio Analysis

The bank's lending in its assessment area meets the standards for satisfactory performance. The quarterly average of the bank's net loan-to-deposit ratio since the previous evaluation is 58%. The chart below, based on quarterly ROC data, shows that the loan-to-deposit ratio has remained approximately the same since the previous evaluation. The varying ratios reflect the seasonal fluctuation in agricultural borrowings.

| Date | Net Loans (In thousands) | Deposits (In thousands) | Net Loan-to- Deposit Ratio |
|--------------------|-----------------------------|----------------------------|-------------------------------|
| June 30, 1996 | \$10,669 | \$17,016 | 62.6% |
| March 31, 1996 | \$10,400 | \$17,381 | 59.8% |
| December 31, 1995 | \$9,623 | \$17,302 | 55.6% |
| September 30, 1995 | \$9,634 | \$17,177 | 56.0% |
| June 30, 1995 | \$10,014 | \$16,457 | 60.8% |
| March 31, 1995 | \$9,401 | \$17,753 | 52.9% |

The bank's loan-to-deposit ratio, as listed in the June 30, 1996, Uniform Bank Performance Report, is 62%, which places the bank in the 52nd percentile in relation to its peer group. Two competing financial institutions located in Ronan, Montana, serve approximately the same region as the bank. Based on ROC data since the last evaluation, the quarterly average loan-to-deposit ratios for the competitor banks are 85% and 67%. The bank's loan-to-deposit ratio is lower than the two competitor banks.

Although the bank's loan-to-deposit ratio is lower than that of its competitors, the ratio is reasonable and meets the standards for satisfactory performance. The bank is the smallest competitor in a very competitive market. Residents of Ronan bank in Ronan or to the north in Polson rather than driving to St. Ignatius. In addition, numerous banks in Missoula, Montana, compete for business in the southern portion of the assessment area. Based on these factors, the bank's loan-to-deposit ratio is reasonable.

Lending in Assessment Area

The bank's lending in its assessment area exceeds the standards for satisfactory performance. Based on a statistical sample of loans, the bank originated a large majority of its loans to borrowers residing in the assessment area. The table below reflects the percentage of the total number and dollar volume of loans by loan type originated inside the assessment area.

| Product Line | Total Number of Loans | Total Dollar Amount of Loans |
|-----------------------------|--------------------------|---------------------------------|
| Agricultural/Small Business | 83% | 82% |
| Consumer | 75% | 76% |

As shown in the table, the two major product categories reviewed were agricultural and small business and consumer loans. As previously mentioned, the primary business in the assessment area is agriculture. The high percentages for agricultural and small business loans correspond to the agricultural nature of the assessment area. The concentration of lending in the assessment area exceeds the standards for satisfactory performance.

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

The bank's lending to borrowers of different incomes and to businesses of different sizes exceeds the standards for satisfactory performance. A sizable portion of the loans originated were to low- and moderate-income borrowers. CRA breaks income into four levels: low, moderate, middle, and upper. Because the assessment area is not located in a metropolitan statistical area, a borrower's income level is determined in relation to the statewide nonmetropolitan median family income for Montana. The assessment area's median family income is about 68% of the 1995 nonmetropolitan Montana statewide average.

The table below illustrates the bank's distribution of consumer loans by income level.

| DISTRIBUTION OF LOANS BY INCOME LEVEL IN THE ASSESSMENT AREA* | | | | |
|---|------------|-----------------|---------------|--------------|
| Loan Type | Low Income | Moderate Income | Middle Income | Upper Income |
| Consumer: | | | | |
| Percentage of Total Loans | 47% | 25% | 22% | 6% |
| Percentage of Total Loan Amounts | 38% | 32% | 24% | 6% |
| *Income level is determined based on the 1995 statewide median family income of \$32,200 for Montana. | | | | |

The loan sample data indicates that the bank originated 72% of its consumer loans and 70% of the amounts borrowed to low- and moderate-income borrowers. As noted, 46% of the assessment area's households are classified as low and moderate income. (Approximately 16% of the consumer loans in the sample did not contain income information; this analysis is based on the remaining 84% of the loans in the sample.) The bank originated a higher percentage of loans to low- and moderate-income borrowers than the percentage of low- and moderate-income households in the assessment area.

The bank lends mostly to small business and agricultural borrowers. All of the small business and agricultural loans in the sample were provided to businesses or farms with total gross annual revenues of less than \$1 million. In addition, 99% of the sampled loans in this category were of amounts of \$100,000 or less. This distribution of small business and agricultural loans is consistent with the bank's asset size, legal lending limit, and the assessment area's overall economic condition.

Based on the level of consumer lending to low- and moderate-income borrowers and commercial lending to small businesses and farms, the bank's lending exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

The bank's lending patterns among geographies of different income levels in the assessment area exceeds the standards for satisfactory performance. As previously mentioned, two of the three assessment area BNAs are classified as moderate income. The table below reflects the percentage of loans originated in the moderate- and middle-income BNAs.

| DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL | | |
|---|-----------------------------|--------------------------|
| Loan Type | Moderate-Income BNAs | Middle-Income BNA |
| Consumer: | | |
| Total Number of Loans | 91% | 9% |
| Total Dollar Amount of Loans | 95% | 5% |
| Agricultural/Small Business: | | |
| Total Number of Loans | 96% | 4% |
| Total Dollar Amount of Loans | 81% | 19% |

According to 1990 census data, 44% of the population in the assessment area live in the moderate-income BNAs. The loan sample indicates that the bank originates more than 90% of its loans to individuals who reside in these moderate-income BNAs. As previously mentioned, these two moderate-income BNAs are geographically closer to the bank than the middle-income BNA. Also, the city of Ronan is located in the middle-income BNA and is the main location for two competitor financial institutions. Assessment area residents who live in Ronan rarely drive 15 miles to St. Ignatius to conduct their banking business. As such, the bank has almost all of its loans in the moderate-income BNAs located close to its office. In addition, the middle-income BNA has more residents because Ronan is a larger community than St. Ignatius. As a result, the moderate-income BNAs have a smaller percentage of the assessment area's residents than does the middle-income BNA. The percentage of loans originated in the moderate-income BNAs is appropriate considering the bank's location and that of its competitors based in Ronan. Because the bank has almost all of its loans in the moderate-income BNAs, the bank's geographic distribution of loans exceeds the standards for satisfactory performance.

General

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

PUBLIC DISCLOSURE

August 26, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lake County Bank
Name of Depository Institution

093008950000
Identification Number of Institution

St. Ignatius, 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.