

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 The Citizens Bank of Choteau, Choteau, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of October 14, 1997. 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 rating the bank’s CRA performance satisfactory. First, based on an analysis of the bank’s loans, the bank lends to borrowers of different income levels and to businesses and farms of various sizes. Second, the bank has a reasonable loan-to-deposit ratio. Finally, the bank has extended a large percentage of its loans within its assessment area.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of the communities in its assessment area effectively. The bank received a satisfactory rating at its last CRA evaluation, dated March 11, 1996. The bank operates a full-service office in Choteau. The office is open from 9:00 a.m. to 3:00 p.m. Monday through Thursday and 9:00 a.m. to 4:00 p.m. Friday. The bank's drive-up teller is open from 8:00 a.m. to 5:00 p.m. Monday through Friday. Since the last evaluation, the bank opened an automated teller machine ("ATM") at Rex's Market in Choteau. The ATM may be accessed daily during store hours, which are 8:00 a.m. to 10:00 p.m. The ATM does not take deposits. The bank has not opened or closed any offices since the last evaluation.

According to the June 30, 1997, Report of Condition ("ROC"), the bank had total assets of approximately \$29.1 million. Since March 31, 1996, the bank's total assets have increased by approximately \$1.7 million, or 6.4%. During that time, the bank's loans increased by \$3.4 million while deposits increased by a modest \$259,000. The bank's quarterly average net loan-to-deposit ratio is 50.2%. Its net loan-to-deposit ratio, 60.9% as of June 30, 1997, increased dramatically since the last evaluation. The bank's loan portfolio is composed of approximately 33% commercial, 38% agriculture, 15% consumer, 11% consumer real estate, and 3% other loans. The composition of the bank's loan portfolio has remained relatively stable since the last evaluation. The bank's loan mix reflects the level of demand for specific types of loans by residents of the assessment area.

The bank offers a variety of loan products to serve the credit needs of residents, businesses, and farms within its assessment area. It extends consumer closed-end, agricultural, commercial, and residential real estate loans. In addition to these conventional loan products, the bank offers Small Business Administration-guaranteed and Rural Development loans. It also refers potential applicants for secondary-market real estate loans to a mortgage company.

DESCRIPTION OF THE CITIZENS STATE BANK OF CHOTEAU'S ASSESSMENT AREA

The bank has defined its assessment area as a portion of Teton County, which is located in the central part of northwestern Montana. The county has three block numbering areas ("BNA"). BNAs 9715 and 9716.98 constitute the bank's assessment area and are designated as middle income. According to the 1990 census data, the bank's assessment area has a total population of 5,021 residents, 1,741 of whom live in Choteau. Located approximately 52 miles northwest of Great Falls, Montana, Choteau is the largest community in the assessment area. It is the county seat and is in BNA 9716.98. The city of Fairfield is in BNA 9715 and has a population of 660. Other towns in the assessment area include Pendroy, Bynum, Greenfield, and Collins.

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 or BNA'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 person 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% or more of the statewide nonmetropolitan median family income is considered an upper-income person. BNAs are classified using similar categories based on the level of median family income in the geography compared

with the 1990 statewide nonmetropolitan family income of \$27,352. The updated 1997 statewide nonmetropolitan median family income is \$36,100. This figure is used to clarify borrowers' income. As mentioned previously, both BNAs in the bank's assessment area are classified as middle income. The median family income in BNA 9715 is \$24,388, or 89.2% of the statewide nonmetropolitan median family income. It is a slightly higher \$27,470 in BNA 9716.98; in that BNA, the median family income represents 100.4% of the statewide nonmetropolitan median family income.

According to the 1990 census data, the assessment area's median household income is \$21,553 and the median family income is \$25,993. Both figures are slightly below the Montana statewide nonmetropolitan median household and family incomes of \$22,345 and \$27,352, respectively. Of the 1,878 households in the assessment area, approximately 27% are low income, 15% are moderate income, 19% are middle income, and 39% are upper income. Of the 1,320 families in the assessment area, approximately 25% are low income, 16% are moderate income, 23% are middle income, and 36% are upper income. Approximately 16% of the households and 14% of the families have incomes below the poverty level.

Examiners made a community contact with an official representative of local government who is familiar with the economic characteristics and credit needs of the assessment area. Information obtained from this individual and bank management was used in evaluating the bank's CRA performance.

Agriculture, both ranching and farming, and related enterprises is the largest contributor to the area's economy. Agriculture employs the greatest number of employees in the county. The assessment area is part of the Golden Triangle that includes Teton, Toole, and Pondera counties. According to the community contact, this area produces some of the finest malting barley in the United States. Crop prices have been very strong during the past few years. Following several years at low levels, cattle prices have made somewhat of a comeback this year.

Tourism has become an increasingly important component of the local economy, stemming from the many historical attractions and recreational opportunities in the area. The local development corporation recently opened a tourist information booth in Choteau.

The current economic health of the assessment area is strong, and unemployment is low. According to a county health profile published in February 1997 by the Montana Department of Public Health and Human Services, the unemployment rate for the assessment area is 3.4%. According to the community contact and bank management, the large employers in the Choteau area outside of the agriculture industry are the hospital and the U.S. Forest Service. The largest employer in nearby Fairfield is the Telephone Service Electric Cooperative. The population has not grown significantly since 1990. Teton County's population density was 2.8 persons per square mile in 1995.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in serving the credit needs of its assessment area is satisfactory. Much of the analysis on the following pages was based on a statistical sample of 55 consumer loans and 63 small business and farm loans originated in the six months before the evaluation. The criteria discussed below were reviewed in determining the rating. In assigning the overall rating, the greatest weight was placed on the assessment of lending to borrowers of different income levels and businesses of different sizes and the loan-to-deposit ratio. These factors most closely measure the bank's efforts to meet the credit needs of all segments of its community.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio meets the standards for satisfactory performance. Since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 50.2%. This ratio has increased since the last evaluation when it was 47.6%. According to the June 30, 1997, ROC, the bank's net loan-to-deposit ratio was 60.9%. The following chart, based on quarterly ROC data, shows the overall increase in the bank's net loan-to-deposit ratio.

DATE	NET LOANS (IN THOUSANDS)	DEPOSITS (IN THOUSANDS)	NET LOAN-TO- DEPOSIT RATIO
June 30, 1997	\$14,796	\$24,279	60.9%
March 31, 1997	\$11,720	\$25,154	46.6%
December 31, 1996	\$11,620	\$26,064	44.6%
September 30, 1996	\$12,287	\$24,343	50.5%
June 30, 1996	\$12,344	\$23,995	51.4%
March 31, 1996	\$11,375	\$24,020	47.4%

The fluctuations in loan volume reflect the cyclical nature of an agriculture-based economy. For example, as shown in the table above, loan volume typically decreases at year-end when borrowers pay down lines of credit as they receive payments for crops and livestock. The significant drop in the bank's net loan-to-deposit ratio for the quarter ending December 31, 1996, was largely because of a substantial growth in deposits. The relatively high net loan-to-deposit ratio as of June 30, 1997, is explained by two factors. First, the bank's seasonal agricultural loan line advances are at their peak at this time of the year. Second, the bank has acted on its commitment to extend and increase credit to local business entities and individuals. It is commendable that the bank's net loan portfolio has increased 19.9% since June 30, 1996.

According to its June 30, 1997, Uniform Bank Performance Report ("UBPR"), the bank's 60.9% net loan-to-deposit ratio is slightly below its national peer group average of 64.4%. The bank's ratio places it in the 40th percentile compared with its peers. Management indicated the bank is continuing efforts to improve and increase its lending activities. The community contact described the bank as an active commercial and agricultural lender as well as a very involved participant in the county's economic development projects.

Bank management indicated its strongest competitors are the GFGE Federal Credit Union, Great Falls (branch in Fairfield), and Norwest Bank Montana, National Association, Billings, Montana (branches in Great Falls and Conrad, Montana). Relevant financial information is not available to compare these institutions with the bank. The bank's other local competitors are Dutton State Bank, Dutton, Montana, and Farmers State Bank of Montana, Conrad. Because each of these banks has a substantially different product mix and asset size than the subject bank, a net loan-to-deposit ratio comparison is not warranted. However, the June 30, 1997, UBPR indicates the bank's average net loans-to-assets ratio is 50.9%. The bank's average is lower than the 64.0% average net loans-to-assets ratio for all banks in Montana with assets between \$25 million and \$100 million. The bank devotes fewer assets to loan activity than similar-sized institutions in Montana.

The community contact did not identify any unmet credit needs in the assessment area. Therefore, based on the bank's efforts to increase lending activities, its net loan-to-deposit ratio, and its UBPR ranking, the bank's net loan-to-deposit ratio meets this category's standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity in the assessment area meets the standards for satisfactory performance. A review of a statistical sample of loans originated by the bank during the past six months reveals that the bank extended a majority of its loans inside the assessment area. The following table shows the percentage of loans within the assessment area based on total number and loan amount in each major category.

DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
Loan Type	Inside				Outside			
	Number of Loans	%	Amount of Loans (In thousands)	%	Number of Loans	%	Amount of Loans (In thousands)	%
Consumer	46	84	\$440	84	9	16	\$85	16
Small Business and Farm	45	71	\$914	81	18	29	\$220	19
Total	91	77	\$1,354	82	27	23	\$305	18

Since the last evaluation, the bank has increased its consumer lending activity in the assessment area. Conversely, its small business and farm loan activity in the assessment area has decreased. The last evaluation revealed that the bank extended 81% of its consumer and 76% of its small business and farm loans in the assessment area.

As illustrated above, the bank makes a good majority of its loans to residents, businesses, and farms in its assessment area. While a significant majority of the bank's consumer loans are concentrated in the assessment area, small business and farm loans, which comprise the largest share of the bank's portfolio, are somewhat more geographically dispersed. Based on the concentration of lending within the assessment area, the bank meets the standards for a satisfactory performance in this category.

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

The bank's level of lending to individuals of different income levels and to businesses and farms of different sizes exceeds the standards for satisfactory performance. As previously mentioned, CRA groups income levels into four categories: low, moderate, middle, and upper. The following table shows the percentage of consumer loans made to borrowers of the different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
Consumer				
Total Number of Loans	28%	24%	26%	22%
Total Amount of Loans	13%	37%	25%	25%
*Income level based on Montana's 1997 nonmetropolitan statistical area median family income of \$36,100.				

The data in the table indicate that the bank originated a majority, 52%, of its consumer loans to low- and

moderate-income borrowers. In addition, 50% of the total amount of the bank's consumer loans were made to low- and moderate-income borrowers. Although, the level of lending to low- and moderate-income borrowers is very strong, it has decreased since the last evaluation. At that time, the bank's loans to low- and moderate-income borrowers comprised 46% and 20% of the loan sample, respectively.

The bank's borrower distribution compares favorably with the population of low- and moderate-income people in the assessment area. As previously mentioned in the Description of Assessment Area section, approximately 42% of the households and 41% of the families in the bank's assessment area are classified low and moderate income based on the 1990 census figures. Information from the community contact confirmed that the low- and moderate-income people still represent approximately 40% of the area's population. To service the credit needs of these people, the bank is willing to extend small loans. The community contact indicated that there were no unmet credit needs. Given the demographics of the assessment area, the bank's lending by both number and dollar amounts of loans to low- and moderate-income people is very commendable.

Agricultural and commercial loans are the bank's primary focus. As previously mentioned, approximately 71% of the bank's loan portfolio falls into these categories. All of the 45 small business and farm loans in the bank's assessment area were to borrowers with gross annual revenues of \$1 million or less. In addition, 98% of the loans were for amounts less than or equal to \$100,000. The 2% of remaining loans were made in amounts ranging from \$100,000 to \$250,000. The bank's small business and farm lending activity mirrors the local commercial and agricultural markets, which are primarily composed of small businesses and farms.

The bank's emphasis on lending to small businesses and farms, together with the percentage of consumer loans to low- and moderate-income borrowers, demonstrates a strong commitment to meeting the credit needs of all segments of the community. Given the aforementioned factors, the bank exceeds this category's standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's loans is reasonable. As previously discussed, all BNAs in the bank's assessment area are classified as middle income. As a percentage of statewide nonmetropolitan median family income, the median family incomes of BNAs 9715 and 9716.98 are 89.2% and 100.4%, respectively. Bank management indicated the low-, moderate-, middle-, and upper-income residents are not concentrated in any particular area but are dispersed throughout the assessment area. As a percentage of assessment area activity, the bank extended approximately 93% of its consumer loans and 80% its of small business and farm loans in BNA 9716.98. Choteau, the assessment area's largest city, is located in BNA 9716.98; therefore, the concentration of loans in this area appears reasonable. For this reason, the distribution of the bank's loans meets this category's standards for satisfactory performance.

GENERAL

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

PUBLIC DISCLOSURE

October 14, 1997
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens State Bank of Choteau
Name of Depository Institution

093002400000
Identification Number of Institution

Choteau, Montana
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55480-0291

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.