

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 Stockmens Bank, Cascade, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of April 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.”

The bank’s satisfactory CRA rating is based on several factors. First, the bank’s loan-to-deposit ratio has been at a reasonable level since the previous evaluation. Second, the bank originated a majority of its loans in the assessment area. Finally, the bank has a reasonable distribution of loans to borrowers of different incomes and to businesses of different sizes.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs in its assessment area. The bank received a satisfactory rating at its previous CRA evaluation. This is the second CRA evaluation for the bank using revised CRA procedures adopted in November 1995. The bank's only office is located in Cascade, Montana. The bank does not own an automated teller machine.

According to the December 30, 1996, Report of Condition ("ROC"), the bank had total assets of approximately \$16.5 million. The bank had total liabilities of \$14.4 million. At the previous evaluation, the bank had total assets of \$15.6 million. The increase in assets is from normal operating activity. Total deposits have increased by approximately the same amount since the previous evaluation. Bank management stated that a number of individuals who have moved to Great Falls, Montana, which is outside the assessment area, are still bank customers. According to the December 31, 1996, ROC data, the bank's loan portfolio is 45% agricultural, 20% consumer real estate, 19% commercial, 15% consumer, and 1% other loans. The bank's loan portfolio mix has remained relatively stable over the past four quarters.

The bank offers a variety of credit products and services that serve the credit needs of the residents and businesses in its assessment area. It extends consumer closed-end, home improvement and home equity, agricultural, and commercial loans. The bank does not underwrite conventional mortgage loans for the purpose of purchasing or refinancing a single-family residence. Also, the bank does not offer open-end home equity loans or credit cards. Because of the bank's asset size and its lack of expertise regarding these loans, it refers borrowers interested in these products to larger financial institutions in Great Falls.

DESCRIPTION OF STOCKMENS BANK'S ASSESSMENT AREA

The bank's assessment area consists of three census tracts located in the Great Falls metropolitan statistical area ("MSA"). The bank's assessment area, which has not changed since the previous evaluation, consists of census tracts 104, 106, and 107. All three census tracts lie on the western edge of the MSA. The bank is located in census tract 104. Census tract 107 is quite large and covers almost the entire southern portion of the MSA. The largest city in the assessment area is Cascade. The largest city in the MSA is Great Falls; it is approximately 20 miles east of Cascade and is not located in the bank's assessment area. Because of the bank's size and location in an MSA, it has been subject to the requirements of Regulation C--Home Mortgage Disclosure Act ("HMDA"). Due to recent revisions to Regulation C, the bank will not be subject to HMDA in 1997.

According to 1990 census data, the assessment area has a total population of 8,693. All three assessment area census tracts are classified as middle income. Community contacts and bank management stated that the population figures for Cascade had remained relatively unchanged. The city is involved in litigation because of environmental problems concerning its waste treatment facilities. Apparently, the waste treatment system for the city has been leaking into the Missouri River. Based on this waste treatment problem and the subsequent lawsuit, a moratorium on the installation of new water and sewer hookups in the city was implemented. In early 1997, the moratorium was lifted for those individuals who had been on the city's waiting list. However, the moratorium is still in effect in regard to new housing development.

Due to its proximity to Great Falls, Cascade could be considered a bedroom community. A number of individuals who reside in Cascade work in Great Falls. Community contacts and bank management stated that a number of people originally from Cascade still maintain their deposit accounts at the bank, despite

having moved to Great Falls. Contacts and bank management indicated they are hoping the waste treatment problems and the related litigation will be resolved in 1998. Once these problems are resolved, community contacts indicated that Cascade should experience solid housing growth. Bank management stated that a number of community development opportunities may develop after the city has settled the litigation and corrected the waste treatment problems. Cascade is a small town, and its economy is based primarily on farming production. There are a number of small retail shops and cafes in town. The major employers in the assessment area are the Cascade public schools and various cattle ranches. Community contacts and bank management stated that the Cascade school system is very highly ranked in Montana. Community contacts stated there appear to be no unmet credit needs in the assessment area.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is located in an MSA, the categorization of a borrower or census tract's income is determined relative to the MSA median family income. Pursuant to CRA's definitions, low-income individuals have incomes of less than 50% of the MSA median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines middle-income individuals as persons with incomes of at least 80% but less than 120% of the MSA median family income. Individuals with incomes of 120% or more of the MSA median family income are classified as upper-income persons. According to the 1996 updated census data, the median family income for the MSA is \$36,400.

According to 1990 census data, the assessment area median family income is \$28,986. The MSA median family income as of 1990 was \$27,902. The assessment area's median household income is \$26,027. The census data provide a breakdown of the percentage of low-, moderate-, middle-, and upper-income individuals who reside in the assessment area. According to the census data, 20% of the households in the assessment area are classified as low income, 14% are moderate income, 21% are middle income, and 45% are upper income. The number of households in the assessment area with incomes below the poverty level is 12%; the number of families with incomes below the poverty level is 10%. All three census tracts are classified as middle income based on the median family income of the tracts relative to the MSA median family income in 1990.

Examiners contacted area residents familiar with the local economy as part of the CRA evaluation process. Information from these individuals was used in evaluating the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting the credit needs of its assessment area. Much of the analysis on the following pages is based on a statistical sample of 110 consumer and 85 commercial and agricultural loans originated in the six months before the evaluation. The following criteria were reviewed in determining this rating. Although the bank reports HMDA information, it made only 38 HMDA reportable loans in 1995 and 32 such loans in 1996. Accordingly, real estate loans are not a major loan category for this bank.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio meets the standards for satisfactory performance based on the ratio's consistent level since the previous evaluation. The quarterly average of the bank's loan-to-deposit ratio

since the last evaluation is 56.5%. The chart below, based on quarterly ROC data, shows that the loan-to-deposit ratio has remained relatively consistent during the past four quarters.

Date	Net Loans (in thousands)	Deposits (in thousands)	Net Loan-to-Deposit Ratio
December 31, 1996	\$7,885	\$14,301	55%
September 30, 1996	\$7,830	\$13,412	58%
June 30, 1996	\$7,632	\$13,076	58%
March 31, 1996	\$7,404	\$13,577	55%

The bank's net loans and deposits have been increasing steadily. Bank management attributes the growth to normal operating activity. According to its December 31, 1996, Uniform Bank Performance Report, the bank's loan-to-deposit ratio of 55% places it in the 36th percentile of its peer group. The bank is the predominant financial institution in the assessment area. Its main competition comes from significantly larger financial institutions located in Great Falls.

Although the bank's loan-to-deposit ratio meets the standards for satisfactory performance, several factors may prohibit the ratio from increasing. First, Cascade has been under a housing permit moratorium as a result of water and waste treatment problems. The city could not issue housing permits until it corrected the water treatment problems. The inability to issue housing permits has resulted in the city experiencing stagnant housing development. Second, because of the bank's asset size and experience levels, it does not provide a wide variety of credit products that might enhance its loan-to-deposit ratio.

Based on the bank's consistent loan-to-deposit ratio since the previous on-site evaluation and the lack of any identified unmet credit needs, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending in its assessment area meets the standards for satisfactory performance. As illustrated in the following table, the CRA loans sampled indicated that the bank originated a majority of its consumer and commercial and agricultural loans in the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Consumer	64	55
Commercial/Agricultural	54	65

The data for the percentages listed in the table are based on a statistical sampling of consumer and commercial/agricultural loans originated in the six months before the evaluation. The percentages indicate that the bank has originated a majority of loans in its assessment area. However, several factors affect the assessment area percentages. First, community contacts stated that there appears to be no unmet credit needs in the assessment area. Based on the bank's proximity to Great Falls, a number of commercial loans are originated to small businesses located in Great Falls. Second, a sizable number of bank customers who used to reside in the assessment area have moved to Great Falls but still maintain accounts with the bank.

According to the bank's reported HMDA data, the bank is not a leading real estate lender in either the MSA or its assessment area. In 1995, the bank originated 36 of its 38 HMDA loans in its assessment area. This represents 95% of the bank's reportable HMDA loans in 1995. Aggregate lenders originated 190 HMDA-reportable real estate loans in the assessment area. The bank originated approximately 19% of the aggregate HMDA loans in the assessment area. In 1996, the bank originated 25 of its 32 HMDA loans in its assessment area. As such, the bank originated 78% of its 1996 HMDA loans in its assessment area.

Based on the percentages of consumer and commercial and agricultural loans originated inside the assessment area, the bank's lending activity is reasonable and meets the standards for satisfactory performance.

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 of different sizes is reasonable and meets the standards for satisfactory performance. As previously mentioned, CRA classifies income levels into four categories: low, moderate, middle, and upper. Based on 1990 census data, the median family and household incomes for the bank's assessment area are \$28,986 and \$26,027, respectively. The median household and family incomes for the assessment area exceed the MSA median household and family incomes of \$23,700 and \$27,902, respectively. The following table shows the distribution of the bank's consumer loans by borrower income level.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low-Income Households	Moderate-Income Households	Middle-Income Households	Upper-Income Households
Consumer:				
Total Number of Loans	35%	25%	31%	9%
Total Amount of Loans	39%	29%	20%	12%
*Income level is determined based on the 1996 median family income of \$36,400 for the Great Falls MSA.				

The level of consumer lending to low- and moderate-income borrowers is reasonable when compared with the population of low- and moderate-income households in the assessment area. As previously discussed, 20% of the households in the assessment area are classified as low income, 14% are moderate income, 21% are middle income, and 45% are upper income. The bank's lending percentages for consumer loans to low- and moderate-income households (60%) is higher than the percentages of these households in the assessment area. At this time, there are no city-sponsored loan programs designed to reach low- and moderate-income borrowers.

The bank's percentage of lending to middle- and upper-income households is below the percentage of these households that are located in the assessment area. Bank management attributes these lower percentages to the fact that the majority of its consumer lending is generated by individuals who reside close to the bank. Community contacts stated that Cascade does not have a sizable number of middle- and upper-income individuals. Also, the percentages in these categories may be affected by the lack of residential real estate development attributed to the housing permit moratorium discussed previously. The city has not been able

to issue water and sewer hookups for new homes or attract higher-income individuals due to the lack of existing homes available for purchase.

The bank's 1995 HMDA data indicate that the bank originated 36 real estate loans in the assessment area and 12 of these loans (33%) were to low- and moderate-income individuals. These real estate loans represent 27% of the total real estate loans originated in the assessment area to low- and moderate-income individuals. Aggregate lenders made 190 real estate loans and 45 loans (24%) were to low- and moderate-income borrowers residing in the assessment area. In 1996, the bank's real estate lending to low- and moderate-income individuals increased significantly. The bank made 15 of its 25 assessment area HMDA loans to low- and moderate-income individuals that year. These loans represented 60% of its total 1996 assessment area HMDA loans. The bank's percentage of lending to low- and moderate-income individuals is affected by two important factors. First, the bank does not offer conventional real estate mortgage loan products. Second, the water and waste treatment problems in Cascade have prevented residential real estate development.

The loan size and volume of commercial and agricultural loans appear reasonable for the bank. All of the commercial and agricultural loans in the sample were made to borrowers with less than \$1 million in gross annual revenues. Approximately 85% of the loans in the sample had loan amounts of less than \$100,000. The remaining 15% had loan amounts greater than \$100,000 but less than \$250,000. This distribution of commercial and agricultural loans is consistent with the bank's asset size, legal lending limit, and the overall assessment area economic conditions.

Based on the level of consumer lending to low- and moderate-income borrowers as compared with the representation of those individuals in the community and the number of small business loans extended, the bank meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The analysis of the bank's loan distribution by income level of geographies throughout its assessment area is not meaningful. According to 1990 census data, the three census tracts that comprise the bank's assessment area are classified as middle income. CRA data indicate that the bank lends in all three census tracts. CRA examination procedures allow examiners to use proxies to enhance this category in order to assess a rating for this category. Examiners concluded that due to the size of the census tracts and the asset size of the bank, proxies that would facilitate a meaningful geographic analysis were not available.

GENERAL

The evaluation did not reveal any practices that are inconsistent with the substantive provisions of the fair lending and fair housing laws and regulations. The evaluation revealed minor isolated violations of the technical aspects of HMDA's Regulation C. The bank has not received any CRA complaints since the last evaluation.

PUBLIC DISCLOSURE

April 14, 1997
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Stockmens Bank
Name of Depository Institution

093002100000
Identification Number of Institution

Cascade, 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.