

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 Glacier Bank of Whitefish, Whitefish, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of July 6, 1998. 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 CRA evaluation revealed several factors that support rating the bank’s CRA performance as satisfactory. First, the bank actively extends consumer loans to low- and moderate-income borrowers and to small businesses. Second, the bank’s net loan-to-deposit ratio is reasonable. Third, the bank has originated a significant majority of its loans to assessment area residents and businesses. Finally, it originates loans to borrowers residing throughout its assessment area.

DESCRIPTION OF INSTITUTION

The bank is able to fulfill area credit needs effectively. The previous CRA evaluation, conducted by the Office of the Comptroller of the Currency as of September 16, 1996, revealed the bank's performance in meeting community credit needs was satisfactory. The bank joined the Federal Reserve System as a state member bank on December 24, 1997, and is an affiliate of Glacier Bancorp, Inc., Kalispell, Montana, a multibank holding company.

The bank operates one full-service office in Whitefish, Montana. The bank's office is in census tract ("CT") 4, a middle-income area in the northwestern section of the assessment area. The bank operates two automated teller machines. The bank has not opened or closed any offices since the previous evaluation.

The bank's size does not restrict its ability to fulfill the credit needs of residents, businesses, and farms within the assessment area. According to the March 31, 1998, Report of Condition ("ROC"), the bank had total assets of approximately \$42 million. The ROC data show that the bank is primarily a consumer and commercial lender. Approximately 44% of its portfolio is consumer loans and 31% is commercial loans. The balance of the bank's loan portfolio is composed of 23% consumer real estate and 2% other types of loans. The composition of the loan portfolio remained relatively stable since the last evaluation. The composition of the bank's loan portfolio reflects the level of demand for specific types of credit by residents and businesses in the assessment area. The bank's loan portfolio does not include any agricultural loans due to lack of local demand for such loans.

The bank offers a variety of loan products designed to meet the assessment area's credit needs. It extends commercial, conventional residential real estate, and consumer loans. The bank refers most of its residential real estate purchase loans to the holding company's lead bank--Glacier Bank in Kalispell, Montana. The majority of these loans are then sold on the secondary market. Applications are received in Whitefish and the bank's loan officers prepare the initial documents for the borrowers as well as answer any questions about the loan process. The loans are typically closed in Whitefish. This arrangement provides residents of the assessment area access to a wide variety of real estate loan products including loans that are offered through the Montana Board of Housing ("MBOH") and Rural Development. It also refers loan applicants to Glacier Affordable Housing Foundation. These loan programs are specifically directed to low- and moderate-income borrowers.

In addition to offering conventional commercial loan products, the bank also participates in Small Business Administration loan programs. Since the last evaluation, the bank has also started participating in small business loan programs through the United States Department of Agriculture. The bank also offers a special holiday loan program to encourage consumers to purchase goods from local merchants.

DESCRIPTION OF GLACIER BANK OF WHITEFISH'S ASSESSMENT AREA

The bank has defined its assessment area as ten CTs in Flathead County, Montana. The assessment area is in the northwestern corner of the state. Communities in the assessment area include Whitefish, Columbia Falls, Evergreen, and Kalispell. According to 1990 census data, the assessment area has a population of 45,466. The 1990 populations of Whitefish, Columbia Falls, and Kalispell are 4,368; 2,942; and 11,917, respectively. In 1990, persons age 65 and older represented 13.3% of the assessment area's population; for Whitefish the figure was 16.3%. Since the census, the relative number of retirees in the area has increased.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank is not located in a metropolitan statistical area (“MSA”), the categorization of a borrower or CT’s income is determined relative to the statewide nonmetropolitan median family income. CRA defines low-income individuals as those with 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 middle-income individuals as people with incomes of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes of 120% or more of the statewide nonmetropolitan median family income are considered upper-income individuals. CTs are classified using similar categories based on the level of the median family income in the geography. The 1998 median family income for Montana’s nonmetropolitan areas is \$36,100; this figure is used to classify borrowers’ incomes. The 1990 median family income for the same areas is \$27,352; this figure is used to classify CTs’ income levels.

According to the 1990 census data, the assessment area’s median family income is \$28,932, and the median household income is \$23,969. The distribution of families and households in the assessment area by income level is shown in the following table.

	Low Income		Moderate Income		Middle Income		Upper Income	
	#	%	#	%	#	%	#	%
Assessment Area Households	3,925	22.2	2,685	15.2	3,237	18.3	7,835	44.3
Assessment Area Families	2,220	17.9	2,117	17.1	2,930	23.6	5,149	41.5

In the assessment area, 14.9% of the households and 11.4% of the families have incomes below the poverty level. These figures are lower than the statewide nonmetropolitan figures of 16.5% and 12.8%, respectively. The percentages of low- and moderate-income households and families in the assessment area are also lower than the statewide nonmetropolitan areas in Montana. Approximately 37% of the households and 35% of the families in the assessment area are considered low and moderate income compared with 40% and 38%, respectively, for the statewide nonmetropolitan areas.

The bank’s assessment area consists of ten CTs in Flathead County. Within the bank’s assessment area, 80% of the CTs are middle-income areas and 20% of the CTs are upper-income areas. The bank’s assessment area does not include any CTs classified as low- or moderate-income areas. The eight middle-income CTs in the assessment area are 2, 4, 6, 7, 9, 10, 11, and 12; these areas have an average income that is 104.1% of the nonmetropolitan median family income for Montana. The CT incomes as a percentage of the nonmetropolitan median family income range from 81.2% to 118.7%. With a median family income of \$22,201, CT 7 has the lowest median family income in the assessment area. The assessment area’s two upper-income areas are CTs 3 and 8, which have an average median family income that is 129.6% of the state’s nonmetropolitan median family income.

The assessment area has 19,602 housing units, of which approximately 61.9% are owner occupied, 28.4% are rental units, and 9.7% are vacant. According to 1990 census data, the median value of housing units in the assessment area is \$62,655, which is significantly higher than the median value of housing units, \$54,029, in Montana’s nonmetropolitan areas. Mobile homes comprise 16.1% of the assessment area’s housing units.

The Whitefish local economy has been flat to somewhat declining during the past few years. Whitefish has a service-based, tourist economy and is very dependent on Canadian tourists. Several factors have contributed to the lackluster economy: the weak Canadian dollar, a declining trend in vacations

nationally, and a severe winter in 1997. Columbia Falls has a manufacturing-based economy, which is stable. The local unemployment rate is a relatively stable 7%.

One of the strongest sectors of the local economy is residential construction, which is concentrated in higher-priced homes. Property values in and around Whitefish are high, and most locals earn low wages in their service-related jobs. These two factors have given rise to an affordable housing shortage; however, the area has not established any affordable housing projects.

The bank operates in a very competitive financial services market. Several financial institutions serve local residents and businesses. These financial institutions include the Whitefish Credit Union Association, Whitefish; First Interstate Bank, Billings, Montana (branch in Whitefish); American Bank of Montana, Bozeman, Montana (branch in Whitefish); and Glacier Bank, Kalispell. The bank is affiliated with the latter institution.

Examiners contacted representatives of an economic development organization and a community organization to discuss community credit needs and development projects. This evaluation reflects information from these community contacts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. Much of the analysis on the following pages is based on a statistical sample of loans originated by the bank since the previous evaluation. The following chart shows the number of loans originated by the bank by dollar and number since September 1996.

GLACIER BANK OF WHITEFISH LOAN ORIGINATIONS SINCE SEPTEMBER 1996				
Loan Type	Total Number of Loans	%	Total Amount of Loans	%
Residential Real Estate	59	5	\$ 4,923,742	15
Consumer Loans	1,165	90	\$11,353,263	68
Commercial Loans	65	5	\$ 5,566,468	17

Based on the volume and dollar amount of loan activity for the three loan categories, a statistical sample of each category was selected for analysis. Examiners reviewed 121 consumer, 51 residential real estate, and 48 small business loans. The bank's performance in the consumer loan category received the greatest weight in the loan analysis. The overall rating was based primarily on the bank's lending to borrowers of different income levels and businesses of different sizes.

LOAN-TO-DEPOSIT RATIO ANALYSIS

Based on its net loan-to-deposit ratio and its lending-related activity, the bank meets the standards for satisfactory performance in this category. In the seven quarters since the previous evaluation, the bank's net loan-to-deposit ratio has averaged 71.6%. The following table, based on quarterly ROC data, illustrates the bank's overall level of lending.

DATE	DEPOSITS (In thousands)	NET LOANS (In thousands)	NET LOAN-TO- DEPOSIT RATIO
March 31, 1998	\$32,533	\$23,212	71.4%
December 31, 1997	\$30,917	\$22,746	73.6%
September 30, 1997	\$31,576	\$22,988	72.8%
June 30, 1997	\$30,062	\$22,791	75.8%
March 31, 1997	\$32,845	\$23,200	70.6%
December 31, 1996	\$24,021	\$16,602	69.1%
September 30, 1996	\$23,450	\$15,893	67.8%

When compared to other similar financial institutions in the region, the bank's overall level of lending appears reasonable. The following chart shows the asset size and average net loan-to-deposit ratio for the bank and similarly situated institutions in the area since September 1996.

BANK	TOTAL ASSETS (As of March 31, 1998) (In thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
Glacier Bank of Whitefish Whitefish, Montana	\$41,737	71.6%
Glacier Bank of Eureka Eureka, Montana	\$25,404	89.6%
BankWest, N.A. Kalispell, Montana	\$45,311	82.7%
First Citizens Bank, N.A. Columbia Falls, Montana	\$35,254	70.9%
Montana First National Bank Kalispell, Montana	\$14,345	78.2%
First Security Bank of Kalispell Kalispell, Montana	\$44,294	78.8%

As the data in the table illustrates, the bank's lending levels are slightly lower than those of most financial institutions in the area with similar asset sizes. In addition to the financial institutions shown above, the bank also competes with offices of First Interstate Bank, Billings, and Whitefish Credit Union Association, Whitefish, Montana. Community contacts did not identify any unmet credit needs.

When compared to national averages, the bank's loan activity is viewed favorably. Based on the March 31, 1988, Uniform Bank Performance Report data, the bank's net loan-to-deposit ratio of 71.35% placed the bank in the 58th percentile in comparison with its peers. The national average net loan-to-deposit ratio for the peer group was 68.48%.

Based on the bank's quarterly average net loan-to-deposit ratio, the comparison to national averages, and lack of identified unmet credit needs, the bank's overall level of lending reflects reasonable responsiveness to the assessment area's credit needs and meets the standards for satisfactory performance in this category.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

Based on the significant majority of loans originated within the bank’s assessment area, the bank’s performance in this category exceeds the standards for satisfactory performance. The following table shows the percentage of loans within the assessment area based on total number and dollar amount in each loan category reviewed.

LOANS ORIGINATED WITHIN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Consumer	88%	83%
Residential Real Estate	93%	92%
Small Business	87%	74%

As the data in the table indicate, the bank extended a substantial majority of its consumer, residential real estate, and small business loans in the assessment area. Based on the high percentages of loans originated in the assessment area, the bank exceeds the standards for 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 borrowers of different income levels and to businesses of different sizes exceeds the standards for satisfactory performance. The following table shows the percentages of consumer and residential real estate loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
Consumer				
Total Number of Loans	22%	25%	34%	19%
Total Amount of Loans	12%	23%	36%	29%
Residential Real Estate				
Total Number of Loans	5%	16%	21%	58%
Total Amount of Loans	2%	16%	25%	57%

*Income level based on Montana’s 1998 non-MSA median family income of \$36,100.

As previously mentioned, low-income households and families represent 22.2% and 17.9% of the assessment area’s population, respectively. Moderate-income households and families represent 15.2% and 17.1% of the assessment area’s population, respectively.

The bank’s consumer lending income distribution data show that the bank actively extends loans to low- and moderate-income borrowers. The bank extended 47% of its consumer loans to low- and moderate-income borrowers. More specifically, it extended 22% of its consumer loans to low-income borrowers; compared to the relative number of low-income families and households in the assessment area, the bank’s consumer lending to low-income borrowers appears good. The same is true for the bank’s consumer lending to moderate-income borrowers, which represented 25% of the lending activity; moderate-income households and families represent a smaller percentage of the assessment area’s

population. The bank is willing to extend small consumer loans to service the credit needs of all members, but particularly the low- and moderate-income members, of the assessment area. Given that 44% of the loan portfolio is consumer loans, the bank's strong performance in this loan category is given significant weight.

The bank extended 21% of its residential real estate loans to low- and moderate-income borrowers. Not included in the data are the residential real estate loan applications that the bank refers to its affiliate in Kalispell. Typically, these loans are for first-time homebuyers and use programs established by the MBOH and Rural Development. These loan programs are specifically directed to low- and moderate-income borrowers. The bank's lending to low- and moderate-income borrowers in this loan category is adequate given the assessment area's demographic data. As previously discussed, the Whitefish area is experiencing an affordable housing shortage. Many low- and moderate-income people cannot afford to buy residential real property because of the area's high property values. Further exacerbating this situation is the fact that Whitefish has a service-based economy; most people providing services to tourists earn very low wages. Low-income families make less than \$18,050 per year. Given the high cost of housing in the assessment area noted by community contacts, these individuals are unlikely to be able to afford to purchase homes. Lending to moderate-income families who make between \$18,050 and \$28,880 appears reasonable when compared to housing costs and the concentration of individuals at these income levels in the assessment area. In light of these factors, the bank's level of residential real estate lending to low- and moderate-income borrowers appears reasonable. Further, the community contacts did not identify any unmet credit-related needs for low- and moderate-income people seeking residential real estate loans.

The bank has a good distribution of small business loans to businesses of different sizes. The bank makes the majority of its small business loans to entities with gross annual revenues of \$1 million or less. For the purposes of this evaluation, small business loans are most commercial loans with original principal amounts of \$1 million or less. The loan sample reveals that the bank originated 92% of its small business loans to entities with gross annual revenues of \$1 million or less. Of loans to these entities, 95% of the loans were for amounts of \$100,000 or less. The distribution of the bank's small business lending reflects the nature of the assessment area's commercial sector.

Overall, the bank's lending to individuals of different income levels and to businesses of different sizes is good. The bank actively extends consumer loans to low- and moderate-income borrowers. Further, its residential real estate and small business lending appears reasonable given the nature of the assessment area's housing and commercial sectors. Consequently, the bank exceeds the standards for satisfactory performance in this category.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout the assessment area is reasonable. As previously discussed, the bank's assessment area has no low- or moderate-income CTs. It is composed of eight middle-income and two upper-income CTs. The following table shows the distribution of the bank's consumer, residential real estate, and small business loans in middle- and upper-income areas.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CT INCOME LEVEL*				
	<i>Middle-Income CTs</i>		<i>Upper-Income CTs</i>	
Loan Type	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Consumer	80%	70%	20%	30%
Residential Real Estate	65%	55%	35%	45%
Small Business	60%	25%	40%	75%
*The bank's assessment area does not include any low- or moderate-income CTs.				

As the data show, the bank extends loans in both middle- and upper-income CTs. As expected, the bank's lending is concentrated in the CTs surrounding Whitefish; the bank extended 39% of its loans to borrowers in CT 4, which is the location of its office. As previously stated, the bank's assessment area has one CT that has a median family income that is merely 81.2% of the nonmetropolitan median family income; the bank extended three loans in this CT, which is located near Kalispell and more conveniently served by other financial institutions, including an affiliate of the bank.

While the bank does extend loans throughout its assessment area, most of its lending activity is concentrated in the geographies nearest the bank's office. Consequently, the geographic distribution of the bank's loan originations meets this category's standards for satisfactory performance.

GENERAL

The bank has not received any CRA-related complaints since the previous evaluation. The evaluation did not reveal any substantive violations of Regulation B--Equal Credit Opportunity Act or the Fair Housing Act. It did reveal procedural violations of the technical requirements of Regulation B. Bank management promised to take prompt action to correct the violations.

PUBLIC DISCLOSURE

July 6, 1998
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Glacier Bank of Whitefish
Name of Depository Institution

093010500000
Identification Number of Institution

Whitefish, Montana
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401-1804

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.