

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 First Citizens Bank of Butte, Butte, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of March 3, 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 bank’s satisfactory CRA rating is based on several factors. First, the bank actively lends to borrowers of different income levels and to businesses of different sizes. Second, the bank’s loans are reasonably distributed throughout its assessment area. Third, the bank’s net loan-to-deposit ratio reflects a reasonable level of lending. Finally, a majority of the bank’s loans were made within the assessment area.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of its assessment area. The bank's CRA performance was rated satisfactory at its previous evaluation, dated May 13, 1996. The bank's only office is located in Butte, Montana. It operates three cash-dispensing-only automated teller machines ("ATM") in Butte; one ATM is open 24 hours in the bank's drive-up facility and the other machines are located in retail establishments and are available during normal business hours. The bank recently established a 24-hour telephone banking service. This service allows bank customers to make account balance inquiries and initiate intrabank transfers.

The bank's continued growth evidences its ability to meet the credit needs of the assessment area. According to the December 31, 1997, Report of Condition ("ROC"), the bank's total assets were \$41.9 million, up nearly \$6.7 million since the June 30, 1996, ROC. The bank attributes this growth to its status as the only locally owned bank in Butte. Its growth is also reflected in the net loan portfolio, which, during the same time, grew from \$21.2 million to \$24.9 million. The December ROC data show that the major categories of lending are commercial (29%), commercial real estate (30%), consumer real estate (25%), and consumer (12%).

The bank offers a variety of loan products to serve the credit needs of individuals and businesses in its assessment area. It extends open- and closed-end consumer, residential real estate, and commercial loans. In addition to offering these conventional products, the bank offers Small Business Administration ("SBA"), Rural Economic Development Corporation, and Montana Board of Investment loans. As one of the top 10 SBA lenders in Montana, its involvement in that program is particularly noteworthy. The bank is also actively involved with a secondary market mortgage company, PHH Mortgage. Through this conduit to the secondary market, the bank provides its customers access to long-term mortgage financing.

DESCRIPTION OF FIRST CITIZENS BANK OF BUTTE'S ASSESSMENT AREA

The bank's assessment area is Silver Bow County. The county is located in the southwestern part of the state and is bisected by the Continental Divide. Silver Bow County and the city of Butte are consolidated under an elected executive form of government. Butte, the county seat, is the state's fourth largest city with a population of 33,336. Well known for its copper mining heritage, Butte and its small neighboring community, Walkerville, have rebounded from the decline of the mining industry to forge a strong, diverse economy.

Silver Bow is Montana's seventh most populous county with 33,941 residents, according to the 1990 U.S. Census data. By July 1996, the county's population had grown to 34,634, according to Montana Department of Commerce estimated data. The population is distributed throughout the assessment area's 10 census tracts ("CT"). Although the bank's assessment area is divided into census tracts, it is not located in a metropolitan statistical area.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not located in a metropolitan statistical area, the categorization of a borrower or a CT's income is determined relative to the statewide nonmetropolitan median family income. Pursuant to the CRA's definitions, 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 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 than the statewide nonmetropolitan median family income are classified

as upper-income persons. According to the 1997 updated data, the statewide nonmetropolitan median family income in Montana is \$36,100; this figure is used to classify income levels of borrowers. CTs are classified using similar categories based on the level of the median family income in the geography compared with the 1990 statewide nonmetropolitan median family income of \$27,352.

According to the 1990 U.S. Census data, the assessment area's median family income is \$29,526, which is approximately 108% of the statewide nonmetropolitan median family income. The median household income for the assessment area is \$21,218. There are approximately 9,072 families and 13,825 households within the assessment area. Approximately 11% of the families and 16% of the households have incomes below the poverty level. The percentage of such families and households in the assessment area is lower than the nonmetropolitan statewide percentages of 13% and 17%, respectively. The distribution of family and household income for the assessment area is summarized in the following table.

ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Families Compared to Median Family Income	20%	16%	20%	44%
Households Compared to Median Household Income	27%	17%	16%	40%

The assessment area, according to 1990 census data, includes one moderate-, four middle-, and five upper-income CTs. The moderate-income CT 1.00 encompasses a large part of the historic hill district of Butte and abuts the southern boundary of Walkerville. This CT contains about 16% of the assessment area's population. The geography has a median family income of \$18,623 and a median household income of \$11,807. Approximately 56% of the families and 66% of the households in this CT are low and moderate income.

The middle-income CTs 3.00, 4.00, 5.00, and 8.00 are generally located around the periphery of the moderate-income CT. These geographies contain about 44% of the assessment area's population. The median family income for the middle-income CTs ranges from \$24,632 to \$30,890 (\$26,382 on an aggregate basis), and median household income ranges from \$16,941 to \$27,178 (\$20,423 on an aggregate basis).

Assessment area CTs 2.00, 5.00, 7.00, 9.00, and 10.00 are upper-income areas. Approximately 40% of the assessment area's population resides in these CTs. Two of these geographies, CTs 9.00 and 10.00, are the largest in the county, yet contain only 2% of the assessment area's population. The aggregate median family income for the upper-income CTs is \$36,080 (the range is \$33,302 to \$48,510), and the aggregate median household income is \$28,663 (the range is \$22,015 to \$45,455). The bank's office and a significant number of Butte's commercial retail businesses are located in CT 7.00.

Examiners contacted two city officials to discuss community credit needs and development projects. This evaluation includes information from these community contacts as well as bank management. According to bank management and the community contacts, the area's economic conditions are strong and credit is available to meet local needs. Based on Montana Department of Commerce estimated data, county population has grown at a stable 2% during the first six years of the decade. Likewise, unemployment has been fairly stable at about 5%. Local employment is weighted toward retail and service jobs, but there is considerable employment in the public utilities, government, mining, construction, and manufacturing sectors.

From a development perspective, a recent major success is the construction of a \$700 million silicone processing plant expected to employ approximately 350 full-time workers. The plant, located eight miles west of Butte, will produce 25% of the world's supply of processed silicone. The city hopes that this project will spur complementary types of development in the area. The success of this project has helped offset the community's loss of about 400 jobs caused by closure or downsizing of one chemical processing and two mining operations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. Most of the analysis on the following pages is based on a statistical sample of 94 consumer and 77 small business loans originated since the previous evaluation. The following criteria were analyzed to determine the bank's CRA rating: net loan-to-deposit ratio, credit extended inside compared to credit extended outside the assessment area, loans to borrowers of different income levels and to businesses of different sizes, loans to borrowers in different geographies, and general information. In assigning the overall rating, the greatest weight was placed on three criteria--loans to borrowers of different income levels and businesses of different sizes, geographic distribution of lending, and the loan-to-deposit ratio.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. Since the June 30, 1996, ROC, the bank's quarterly average net loan-to-deposit ratio is 71%. This is slightly higher than the 68% loan-to-deposit ratio reflected in the December 30, 1997, ROC and the quarterly average loan-to-deposit ratio of 65% noted during the previous examination. The following table reflects the changes of the loan-to-deposit ratio during the previous seven quarters.

DATE	NET LOANS (in thousands)	DEPOSITS (in thousands)	L/D RATIO
June 30, 1996	\$21,187	\$30,701	69%
September 30, 1996	\$21,752	\$31,757	68%
December 31, 1996	\$21,865	\$31,386	70%
March 31, 1997	\$23,129	\$31,697	73%
June 30, 1997	\$23,053	\$31,644	73%
September 30, 1997	\$24,428	\$32,816	74%
December 31, 1997	\$24,908	\$36,898	68%

The table shows a positive trend in the loan-to-deposit ratio as well as net loans from June 1996 through September 1997. This trend, however, was interrupted during the last quarter of 1997 by unusually large deposit growth. Management thought that the deposit growth was attributable, at least in part, to continuing runoff from local offices of other institutions. This runoff, according to management, reflects a preference by local residents to conduct business with the only locally owned bank in the Butte market. (All of the other banks in the market are branch offices of larger financial institutions that are headquartered in other communities.) Also, management thought that the deposit growth was enhanced by the addition of several large accounts that depositors moved to the bank late last year.

As mentioned previously, this bank is the only commercial bank operating in Butte that is not headquartered elsewhere. As such, a comparison of the bank's loan-to-deposit ratios with those of its local competitors is not possible. A review of the September 30, 1997, Uniform Bank Performance Report shows that the bank's loan-to-deposit ratio placed the bank in the 69th percentile of its national peer group. Further, the bank's September 30, 1997, net loans-to-assets ratio was 64.5%, which compares favorably with the average net loans-to-assets ratio of 63.7% for Montana banks with assets between \$25 million and \$100 million. While comparisons to national and statewide peer groups are not as meaningful as comparisons to local competitors, the bank's lending activity appears to be quite strong.

Overall, the bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. The previous analysis shows that while the loan-to-deposit ratio experienced an unusual drop during the last quarter of 1997, the bank's lending has enjoyed steady growth since the previous evaluation. In addition, the lending level compares favorably with the bank's national and statewide peer groups and there was no indication of any unmet credit needs in the community.

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 the statistical sample of consumer and small business loans originated since June 1996 reveals that the bank extended a majority of its loans inside the assessment area. The following table shows the percentage of loans inside the assessment area based on total number and amount in each major loan category.

DISTRIBUTION OF LOANS INSIDE THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Dollar Amount of Loans
Consumer	81%	79%
Small Business	86%	79%

As evident in the table, the bank has extended a significant majority of its consumer and small business loans in the assessment area 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 meets the standards for satisfactory performance. As previously discussed, CRA groups income levels into four categories: low, moderate, middle, and upper. The following table shows the distribution of consumer loans by borrower income level.

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	24%	23%	19%	35%
Total Amount	8%	11%	15%	66%
*Income level is determined based on the 1997 Montana nonmetropolitan median family income of \$36,100.				

The data in the table show that the bank originated 47% of its consumer loans to low- and moderate-income borrowers. To place this statistic in context, a comparison with community demographics is useful. As previously mentioned, 36% of the families and 44% of the households in the assessment area are low- and moderate-income. This comparison indicates that the bank is making slightly more loans to low- and moderate-income borrowers than would be expected solely based on the demographic profile of the assessment area. Low-income borrowers have incomes less than \$18,050. These borrowers tend to qualify only for smaller loans, which explains why the dollar amount of loans to low-income borrowers is substantially below the number of loans. In addition, 16% of the households in the assessment area have income below the poverty level. These households, which tend to be low- or moderate-income households, have limited capacity to borrow. For these reasons, although the bank does not offer any loan programs targeted specifically to low- and moderate-income borrowers, its level of lending borrowers in these income categories is quite good. In addition, as previously noted, the evaluation did not find any evidence of unmet credit needs in the community.

Regarding commercial lending, the sample shows a strong record of lending to small businesses. As previously mentioned, 59% of the bank's loan portfolio is commercial credit. For purposes of this evaluation, small business loans are defined as commercial loans with original principal balances of \$1 million or less. The sample revealed that the bank originated 85% of its small business loans to entities with gross annual revenues of \$1 million or less. The following table sets forth the information reviewed during the evaluation.

DISTRIBUTION OF SMALL BUSINESS LOANS BY LOAN SIZE*			
	Loan Amount \$100,000 or less	Loan Amount \$100,000.01 to \$250,000	Loan Amount \$250,000.01 to \$1,000,000
Small Business Loans	84%	16%	0%
*This table sets forth data about small business loans to entities with gross annual revenues of \$1 million or less.			

The table shows that a significant majority of the bank's small business loans have relatively small amounts (i.e., \$100,000 or less). According to bank management and community contacts, this is representative of the economic structure of the local business community. That is to say, a large part of the economic activity in Butte is based on small businesses. The bank's noteworthy level of SBA loan originations also reflects the fact that small businesses dominate the assessment area's commercial sector.

Overall, the bank's level of lending to individuals of different income levels and to businesses of different sizes meets the standards for satisfactory performance. This conclusion is based on the significant level of small business lending as well as the reasonable level of consumer lending to low- and moderate-income borrowers.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout its assessment area is reasonable and meets the standards for satisfactory performance. As previously discussed, the assessment area includes one moderate-income, four middle-income, and five upper-income CTs. Accordingly, the distribution of CTs in the assessment area is as follows: 10% moderate income, 40% middle income, and 50% upper income. The bank extended consumer and small business loans in 90% of the CTs in the assessment area. It did not extend any consumer or small business loans in CT 10.00, which is sparsely populated with only 1% of the assessment area's total population. CT 10.00 is approximately 10 miles south of CT 7.00, the geography where the bank's main office is located. The following table illustrates the distribution of the loans by CT income level.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CT INCOME LEVEL*			
Loan Type	CT Income Level		
	Moderate Income	Middle Income	Upper Income
<u>Consumer</u>			
Number of Loans	4%	57%	39%
Amount of Loans	2%	38%	60%
<u>Small Business</u>			
Number of Loans	25%	54%	22%
Amount of Loans	21%	49%	29%
*The bank's assessment area does not include any low-income CTs.			

The table shows a couple of interesting consumer lending patterns. First, the percentage of consumer loans in the moderate-income CT is relatively small. As previously mentioned, this tract contains about 16% of the assessment area's population. The low incidence of lending in this area is primarily explained by the close proximity of other banks to this CT. The subject bank is located more than a mile from the southern boundary of the moderate-income CT and in the absence of reliable public transportation is not a convenient destination for many residents of this CT.

Second, the bank extended a majority of its consumer loans in the middle-income CT. As previously mentioned, the middle-income tracts contain about 44% of the assessment area's population. Of the loans extended to borrowers in middle-income CTs, the bank extended most to borrowers in CTs 6.00 and 8.00. This is reasonable because these CTs, for the most part, surround the geography where the bank is located. In essence, the location and convenience of the bank's office influences its consumer loan distribution.

As for small business lending, it is particularly noteworthy that the moderate-income CT has such a high incidence of loans. It is important to recall that this area, which includes the historic hill district, includes only 16% of the assessment area's population. Nevertheless, the table indicates that the bank is making one-fourth of its small business loans in this area. As previously mentioned, the bank's portfolio is nearly 60% commercial loans, so the bank's relative level of lending in this area is significant.

Overall, the distribution of the bank's small business and consumer loans meets the standards for satisfactory performance. This conclusion is based on the significant amount of small business lending in the moderate-income CT as well as a reasonable amount of consumer lending in the moderate-income CT.

GENERAL

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

PUBLIC DISCLOSURE

March 3, 1998
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Citizens Bank of Butte
Name of Depository Institution

093001850000
Identification Number of Institution

Butte, 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.