

PUBLIC DISCLOSURE

March 29, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community Bank - Missoula, Inc.
3010 American Way
Missoula, Montana 59808
RSSD 2265335

**Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, MN 55480-0291**

NOTE: This document is an evaluation of this 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. 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.

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Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

The bank's performance under the Community Reinvestment Act (CRA) is satisfactory. The bank's CRA performance was evaluated using the Interagency Small Bank CRA Evaluation Procedures. Relative to its asset size and financial condition, the bank effectively meets the credit needs of the small businesses and residents in its assessment area. Several factors support the bank's satisfactory rating:

- The bank's lending to businesses of different sizes and to borrowers of different income levels is very good.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area with no unexplained gaps in lending.
- The bank originated the majority of its loans within its assessment area.
- The bank's net loan-to-deposit ratio reflects an active level of lending.

SCOPE OF EVALUATION

Table 1 illustrates the bank's lending activity from January 1, 2009, through December 31, 2009, as provided by the bank for this evaluation.

<i>2009</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Construction/Land Development/Bare Land	14	3.9	\$ 2,672,764	5.4
Consumer	50	14.1	396,338	0.8
Home Equity Line of Credit	25	7.0	993,961	2.0
Residential Real Estate	197	55.3	37,265,303	74.6
Small Business (≤ \$1 million)	64	18.0	5,510,493	11.0
Commercial (> \$1 million)	2	0.6	3,000,000	6.0
Small Farm (≤ \$500,000)	4	1.1	107,200	0.2
Total	356	100.0	\$49,946,059	100.0

Based on the total number and amount of loans for each category, this evaluation uses a statistical sample of small business and consumer loans. The sample includes 49 small business loans and 40 consumer loans originated during the 12-month period from January 1, 2009, through December 31, 2009. Because the bank is located in a metropolitan statistical area (MSA), it is required to collect and report Home Mortgage Disclosure Act (HMDA) data. The analysis also includes residential real estate loans reported for HMDA purposes in 2007, 2008, and 2009, which includes data about home purchase, refinance, and home improvement loans as well as multifamily dwelling loans. The bank reported 162 originated loans in 2007, 139 loans in 2008, and 190 loans in 2009.

For CRA purposes, the bank operates in one assessment area in western Montana. The following criteria were analyzed to determine the bank's CRA rating:

- Lending to businesses of different sizes and to borrowers of different income levels,
- Geographic distribution of loans,
- Lending inside the assessment area,
- Net loan-to-deposit ratio, and
- Record of responding to complaints.

In assigning the overall CRA rating, the greatest weight was placed on the bank's residential real estate loans to borrowers of different income levels.

DESCRIPTION OF INSTITUTION

The bank is able to effectively meet the credit needs of its assessment area given its location, asset size, and loan products. The bank received a satisfactory rating at its previous CRA performance evaluation dated March 6, 2006.

Structure. Community Bank - Missoula, Inc. (CB Missoula), is a full-service financial institution with its main office and two branches in Missoula, Montana. It is wholly owned by Montana Community Banks, Inc., Ronan, Montana.

Offices and retail delivery systems. CB Missoula operates its main office in Missoula. The bank also operates two branches, one in downtown Missoula and one on the south end of Missoula. The bank opened the full-service Southside branch effective January 2, 2008. All three locations have drive-up facilities. The drive-up facility is open Saturdays at the main office. The bank has four cash-dispensing-only automated teller machines (ATM), one at each location and one at a local supermarket.

CB Missoula's web site, www.communitybankmissoula.com, gives customers the ability to transfer funds between accounts, make loan payments, and review account information. Customers may also enroll in the bank's online bill payment service. In addition, the bank offers 24-hour telephone banking that allows customers to check account balances, transfer funds, and verify other account activity. Overall, the bank provides access to its services throughout the assessment area.

Loan portfolio. According to the December 31, 2009, Report of Condition (ROC), the bank's assets totaled \$91.3 million, with a loan portfolio of \$51.0 million. According to the ROC data, the composition of the loan portfolio is 74.4% commercial, 22.5% residential real estate, 1.7% consumer, and 1.4% agricultural loans. The bank continues to sell nearly all of its residential real estate loans to the secondary market upon closing. Accordingly, a majority of the bank's residential real estate lending is not reflected in the ROC data.

Credit products. The bank continues to offer a variety of loan products designed to serve the credit needs of residents, small businesses, and small farms in the assessment area. Its products include commercial, agricultural, consumer, and residential real estate loans. In addition to offering conventional loan products, the bank works with a variety of secondary market and special program lenders to meet consumer and business credit needs.

Deposit market share. According to the June 30, 2009, Federal Deposit Insurance Corporation Deposit Market Share Report, the bank had total deposits of approximately \$73.9 million, representing 4.3% of the total deposits in Missoula County. The bank ranks eighth in market share, behind a number of larger national and regional banks.

Community contacts. In addition to having discussions with bank management, examiners contacted members of the community who are familiar with economic issues in the assessment area. Information from these contacts and bank management was used in the evaluation of the bank's CRA performance.

DESCRIPTION OF ASSESSMENT AREA

Assessment area. The bank’s assessment area includes the Missoula MSA 33540, which consists of Missoula County. Missoula County is in the Rocky Mountains of western Montana. The bank’s main office and the downtown branch are located in moderate-income census tracts. The Southside branch is located in a middle-income census tract. The assessment area consists of 19 census tracts: four moderate-income, 13 middle-income, and two upper-income tracts. The bank’s assessment area contains a small portion of the Flathead Indian Reservation, but it is sparsely populated. The bank has not changed its assessment area since the previous evaluation.

Table 2 contains demographic information about the bank’s assessment area based on 2000 U.S. Census data and 2009 Dun & Bradstreet data.

TABLE 2								
Assessment Area Demographics								
<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	4,467	19.2
Moderate Income	4	21.1	3,585	15.4	751	20.9	4,411	19.0
Middle Income	13	68.4	16,659	71.6	1,150	6.9	5,272	22.7
Upper Income	2	10.5	3,023	13.0	147	4.9	9,117	39.2
Total Assessment Area	19	100.0	23,267	100.0	2,048	8.8	23,267	100.0
<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>			<i>Rental</i>		<i>Vacant</i>	
		#	%	%	#	%	#	%
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	8,879	3,252	13.7	36.6	5,200	58.6	427	4.8
Middle Income	27,613	17,365	73.0	62.9	7,925	28.7	2,323	8.4
Upper Income	4,827	3,176	13.3	65.8	1,521	31.5	130	2.7
Total Assessment Area	41,319	23,793	100.0	57.6	14,646	35.4	2,880	7.0
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
			<i>≤\$1 Million</i>		<i>>\$1 Million</i>		<i>Revenue Not Reported</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	1,766	31.3	1,548	30.4	185	41.9	33	29.7
Middle Income	3,436	60.9	3,127	61.5	236	53.4	73	65.8
Upper Income	436	7.7	410	8.1	21	4.8	5	4.5
Total Assessment Area	5,638	100.0	5,085	100.0	442	100.0	111	100.0
Percentage of Total Businesses:				90.2		7.8		2.0
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
			<i>≤\$1 Million</i>		<i>>\$1 Million</i>		<i>Revenue Not Reported</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	17	7.2	17	7.5	0	0.0	0	0.0
Middle Income	193	82.1	184	81.4	9	100.0	0	0.0
Upper Income	25	0.0	25	11.1	0	0.0	0	0.0
Total Assessment Area	235	100.0	226	100.0	9	100.0	0	0.0
Percentage of Total Farms:				96.2		3.8		0.0

Income. For purposes of classifying borrower incomes, this evaluation uses the Department of Housing and Urban Development's (HUD) estimated median family income for the relevant area. For borrowers in the Missoula MSA, the value is \$59,400 for 2009, \$55,400 for 2008, and \$54,500 for 2007. For purposes of classifying census tract income levels, this evaluation uses the Missoula MSA's 2000 median family income, which was \$44,872.

Population. According to 2000 U.S. Census data, the population in the assessment area was 95,802. Missoula County is Montana's second most populous county. The 2008 population estimate for the county is 107,320, representing an increase of 12.0% since 2000 according to the U.S. Census. The 2000 census data also indicate that 8.8% of the families in the assessment area have incomes below the poverty level. The statewide percentage of families with incomes below the poverty level is somewhat higher at 10.5%.

Economy. Bank management and community contacts indicated that the city of Missoula enjoyed solid growth until about 2007. Much of the growth was the result of construction and expansion efforts, especially in real estate development. Once real estate construction and development slowed, so did the local economy. The Missoula economy is diversified and includes industries such as professional and business services, health care, federal and state government, and wholesale and retail trade. Because of its geographic location and interstate access, Missoula serves as a regional hub for western Montana. Missoula also has the largest university in Montana and is a regional center for the U.S. Forest Service. According to bank management, approximately 95% of college graduates from the University of Montana in Missoula go outside the state for employment opportunities.

According to the Montana Bureau of Labor & Industry, the unemployment rate for the Missoula MSA was 7.5% in January 2010, which ranks Missoula County 37th in the state out of 56 counties. Bank management estimated that the unemployment rate for the county is currently higher due to the recent closure of a large container company's fiberboard manufacturing plant. The company employed approximately 417 employees in Missoula with an average wage of \$70,000. The company closed the plant in December 2009 as part of a bankruptcy restructuring plan. Bank management indicated that many of the high-wage jobs are no longer available in Missoula and people are leaving the area. The January 2010 statewide unemployment rate was 6.0%.

Housing. Community contacts said affordable housing continues to be an issue in Missoula, although several factors have changed since the previous evaluation. The downturn in the economy has affected home sales, but home prices and values are mostly flat. There is also a significant volume of newly constructed condominiums on the market. Currently, Missoula is witnessing an increase in foreclosures, and the community contacts are concerned the rate is indicative of national trends. Many subsidized housing units are nearly 100% occupied. Residents are not moving from rental units due to uncertainties in employment and living situations. According to bank management and community contacts, worker wages and salaries have not kept pace with housing prices; as a result, more Missoula residents need and qualify for affordable housing programs. The community contacts explained that because many financial institutions have tightened their underwriting criteria, it is more difficult for residents to qualify for conventional home loan programs.

The community contacts did not identify any unmet credit needs in the assessment area. Overall, the community contacts indicated that financial institutions serve the assessment area well.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is good. The evaluation focused on the following criteria: distribution of loans to borrowers of different income levels and to businesses of different sizes, the geographic distribution and dispersion of loans, the level of lending inside versus outside the assessment area, and the net loan-to-deposit ratio.

Throughout this evaluation, the bank's lending activity is compared to demographic information obtained from, but not limited to, 2000 U.S. Census data, Dun & Bradstreet, and other sources as mentioned. Other factors can affect lending performance as well. Although demographic information is used to understand and evaluate the bank's performance, comparisons to the demographic data should not be construed as defining an expected level of lending.

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

The bank's performance in providing loans to borrowers of different income levels and to businesses of different sizes is very good. For this criterion, emphasis is placed on lending to low- and moderate-income borrowers and to businesses with gross annual revenues of \$1 million or less.

Residential real estate loans. The bank's HMDA lending to low- and moderate-income borrowers is very good. CB Missoula is an active HMDA lender in the Missoula assessment area. Overall, the bank's lending performance is more favorable than aggregate lenders. The bank offers and participates in several loan programs that help low- and moderate-income borrowers. Table 3 shows the bank's 2007, 2008, and 2009 HMDA lending by borrower income level.

TABLE 3										
2007 HMDA Loans by Income Level of Borrower										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	5	6.0	11	13.0	27	32.1	36	42.9	5	6.0
Refinance	2	5.4	7	18.9	5	13.5	19	51.4	4	10.8
Home Improvement	0	0.0	0	0.0	0	0.0	4	80.0	1	20.0
Total 2007 HMDA Loans	7	5.5	18	14.3	32	25.4	59	46.8	10	7.9
2008 HMDA Loans by Income Level of Borrower										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	3	5.1	15	25.4	18	30.5	23	39.0	0	0.0
Refinance	0	0.0	11	21.2	11	21.2	29	55.8	1	1.9
Home Improvement	0	0.0	0	0.0	0	0.0	1	100.0	0	0.0
Total 2008 HMDA Loans	3	2.7	26	23.2	29	25.9	53	47.3	1	0.9
2009 HMDA Loans by Income Level of Borrower										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	3	7.3	10	24.4	13	31.7	14	34.1	1	2.4
Refinance	8	7.0	15	13.0	34	29.6	54	47.0	4	3.5
Home Improvement	0	0.0	0	0.0	1	16.7	5	83.3	0	0.0
Total 2009 HMDA Loans	11	6.8	25	15.4	48	29.6	73	45.1	5	3.1

CB Missoula did a very good job of lending to low- and moderate-income borrowers. In 2007, 2008, and 2009, the bank extended 19.8%, 25.9%, and 22.2% of all HMDA loans to low- and moderate-income borrowers, respectively. Aggregate lenders extended 16.5% of HMDA loans to low- and moderate-income borrowers in 2007 and 18.6% in 2008. Aggregate HMDA data for 2009 were not available at the time of this evaluation. The bank's lending to low- and moderate-income borrowers exceeds aggregate lenders for home purchase and refinance loans. The bank originates a minimal number of home improvement loans compared to aggregate lenders.

The bank's lending performance is good compared with demographic data. According to 2000 census data, 19.2% of families in the assessment area are low income and 19.0% are moderate income. While 2007, 2008, and 2009 HMDA lending to low-income borrowers (5.6%, 2.7%, and 6.8%, respectively) is lower than the percentage of low-income families, it is reasonable given the downturn in the economy and the shortage of affordable housing. During the past two years, home prices have not fallen significantly, but economic conditions have deteriorated, making it very difficult particularly for low-income individuals and families to afford a home in Missoula. The bank's level of home purchase lending to moderate-income borrowers compares favorably to the demographic data at 13.0% for 2007, 25.4% for 2008, and 24.4% for 2009. The bank's home purchase lending to low- and moderate-income borrowers exceeded the aggregate lenders.

Given the lack of affordable housing in Missoula, current economic conditions, and the bank's performance compared to aggregate lenders, the bank's residential real estate lending is very good.

Small business lending. The bank's lending to small businesses is very good. The bank originated 87.5% of its small business loans to entities with gross annual revenues of \$1 million or less. According to 2009 Dun & Bradstreet data, 90.2% of the businesses in the assessment area had gross annual revenues of \$1 million or less. The bank makes a high percentage of loans to small businesses, which is consistent with the composition of businesses in the assessment area. Table 4 shows the sample of small business loans.

<i>Small Business Loan Originations</i>	\leq \$100,000	> \$100,000 to \leq \$250,000	> \$250,000 to \$1 Million	<i>Total Originations</i>
Percentage of All Small Business Loans	85.0%	5.0%	10.0%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	88.6%	5.7%	5.7%	87.5%

As shown in Table 4, the majority of the bank's small business loans were originated for amounts of \$100,000 or less. The bank is willing to extend small-dollar loans. The bank extended 73.5% of its small business loans for amounts of \$50,000 or less. Overall, the bank's small business lending is very good.

Consumer lending. The bank's consumer lending to low- and moderate-income borrowers is very good. Table 5 shows the percentage of consumer loans originated to borrowers of different income levels.

	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer Loans	23.5%	13.9%	17.7%	13.1%	17.6%	14.4%	29.4%	48.5%	11.8%	10.1%
Percentage of Households by Income Levels**	23.4%		16.4%		18.6%		41.6%		NA	
*Median family income for the Missoula MSA is \$59,400 for 2009.										
**Based on 2000 U.S. Census data.										

The percentage of the bank's consumer loans to low-income borrowers is similar to the percentage of low-income households in the assessment area. The percentage of consumer loans to moderate-income borrowers also is similar to the percentage of moderate-income households in the assessment area. The bank originated 41.2% of the number and 27.0% of the dollar amount of consumer loans to low- and moderate-income borrowers. The lower percentage by dollar amount of loans reflects the small-dollar loans to low- and moderate-income borrowers. The bank serves the needs of low- and moderate-income borrowers by providing small-dollar consumer loans. Of the loans in the sample, the bank originated 42.5% of the consumer loans in amounts of \$5,000 or less. Of those loans, 52.9% were originated to low- and moderate-income borrowers.

The level of consumer lending to low- and moderate-income borrowers demonstrates the bank's willingness to originate consumer loans to borrowers of all income levels in the assessment area. Overall, the bank's level of consumer lending is very good.

The bank's residential real estate and consumer lending to individuals of different income levels and to small businesses of different revenue sizes is very good. A significant number of the bank's consumer loans were extended to low- and moderate-income borrowers. In addition, a large majority of the bank's small business loans were for amounts of \$100,000 or less and were made to businesses with gross annual revenues of \$1 million or less. The bank's lending performance demonstrates very good responsiveness to meeting the credit needs of the businesses and residents in the assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

CB Missoula extends loans throughout the assessment area, and the geographic distribution of loans among census tracts of different income levels is good. The bank originated small business, consumer, and HMDA loans in most of the census tracts in the assessment area, including the four moderate-income census tracts which are located in the city of Missoula. As noted, the Missoula assessment area does not include any low-income census tracts. Two of the bank's offices, including the main office, are located in moderate-income census tracts. Bank management and the community contacts did not identify any concentrations of low- or moderate-income individuals within the assessment area. There are no unexplained gaps in the bank's lending.

Residential real estate lending. The geographic distribution of the bank's HMDA loans throughout the assessment area is very good. As shown in Table 6, the bank originated 21.4%, 17.9%, and 8.6% of HMDA loans in moderate-income tracts in 2007, 2008, and 2009, respectively.

TABLE 6								
2007 HMDA Loans by Income Level of Census Tract								
<i>Income Level of Borrower</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%
Home Purchase	19	22.6	61	72.6	4	4.8	0	0.0
Refinance	8	21.6	25	67.6	4	10.8	0	0.0
Home Improvement	0	0.0	5	100.0	0	0.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0
Total 2007 HMDA Loans	27	21.4	91	72.2	8	6.3	0	0.0
2008 HMDA Loans by Income Level of Census Tract								
<i>Income Level of Borrower</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%
Home Purchase	12	20.3	41	69.5	6	10.2	0	0.0
Refinance	8	15.4	41	78.8	3	5.8	0	0.0
Home Improvement	0	0.0	0	0.0	1	100.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0
Total 2008 HMDA Loans	20	17.9	82	73.2	10	8.9	0	0.0
2009 HMDA Loans by Income Level of Census Tract								
<i>Income Level of Borrower</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%
Home Purchase	3	7.3	34	82.9	4	9.8	0	0.0
Refinance	11	9.6	94	81.7	10	8.7	0	0.0
Home Improvement	0	0.0	4	66.7	2	33.3	0	0.0
Multifamily	0	100.0	0	0.0	0	0.0	0	0.0
Total 2009 HMDA Loans	14	8.6	132	81.5	16	9.9	0	0.0

In the assessment area, 15.4% of families reside in the moderate-income census tracts, and 13.7% of the assessment area's owner-occupied units are located in these tracts. In 2007 and 2008, aggregate lenders originated 16.3% and 16.2% of their loans in the moderate-income tracts, respectively. The bank's HMDA lending in the moderate-income census tracts compares favorably to the demographic data and aggregate lenders' data. Given the relatively small number of owner-occupied units in the moderate-income census tracts, residential real estate lending in these tracts will be limited for both the bank and the aggregate lenders. The bank's HMDA lending in moderate-income areas is generally consistent with the demographic data for owner-occupied units.

Overall, the geographic distribution of residential real estate loans is generally consistent with aggregate lending and the demographic characteristics of the assessment area.

Consumer and small business lending. The geographic distribution of consumer and small business loans in census tracts of different income levels is good. Table 7 shows the distribution of consumer and small business loans in the assessment area by income level of census tract.

TABLE 7
Geographic Distribution of Consumer and Small Business Loans
by Income Level of Census Tract*

<i>Loan Type Sample</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Consumer	23.5%	15.6%	61.8%	59.7%	14.7%	24.8%	0.0%	0.0%
Small Business	15.0%	3.1%	67.5%	71.6%	17.5%	25.3%	0.0%	0.0%
<i>Demographic Data</i>								
Number of Census Tracts	4		13		2		0	
Percentage of Census Tracts	21.1%		68.4%		10.5%		0.0%	
Percentage of Households	22.0%		65.7%		12.3%		0.0%	
Percentage of Small Businesses	31.3%		60.9%		7.7%		0.0%	
*Income classification of census tracts based on 2000 median family income.								

The geographic distribution of consumer loans in moderate-income tracts is good. Consumer lending in moderate-income tracts is consistent with the assessment area's demographic data. CB Missoula extended 23.5% of its consumer loans in the moderate-income tracts, and the demographic data show 22.1% of the assessment area's households live in these tracts. As a result, the distribution of the bank's consumer loans is good.

The geographic distribution of small business loans in the moderate-income tracts is reasonable. CB Missoula extended 15.0% of small business loans to entities located in moderate-income tracts. According to the Dun & Bradstreet data, 31.3% of small businesses are in the moderate-income tracts. The bank's lending in census tracts of all income levels is reasonable when compared with the demographic data. The bank operates in a very competitive market. Given the high level of competition and the number of financial institutions operating in the Missoula assessment area, the geographic distribution of small business loans is reasonable.

Overall, the geographic distribution of the bank's loans is good. Loans are dispersed throughout the assessment area and distributed to borrowers in census tracts of various income levels. The lending activity in moderate-income tracts is good given the competitive market and the locations of the bank's offices. Bank management and the community contacts identified no unmet credit needs for either residents or businesses in the moderate-income areas. There are no unexplained gaps in the distribution of the bank's loans.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The level of the bank's lending in the assessment area is good. Table 8 details the lending activity in the assessment area by loan type.

<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Total HMDA	400	81.5	76,283	81.7	91	18.5	17,126	18.3
Small Business	40	81.6	3,428	76.5	9	18.4	1,052	23.5
Consumer	34	85.0	279	83.6	6	15.0	55	16.4
Total	474	81.7	79,990	81.4	106	18.3	18,232	18.6

Overall, CB Missoula originated a majority of its loans in the assessment area. The bank originated 81.7% of loans by volume and 81.4% by dollar amount in the assessment area. The period for HMDA loans is January 1, 2007, through December 31, 2009. For consumer and small business loans, the period is July 1, 2009, through December 31, 2009.

The bank's level of lending inside the assessment area for residential real estate, small business, and consumer loans is similar to the percentages from the previous evaluation. The concentration of lending in the assessment area is good.

LOAN-TO-DEPOSIT RATIO ANALYSIS

CB Missoula's net loan-to-deposit ratio is reasonable and represents an active level of lending. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 66.4% to 91.3%. Bank management indicated the ratio has been negatively affected by the decline in overall lending and an increase in deposit levels during the recent recession. The average net loan-to-deposit ratio for the 16 quarters during the evaluation period is 82.1%. Table 9 shows the bank's quarterly average net loan-to-deposit ratio and the ratio of one local bank.

<i>Bank Name and Location</i>	<i>Assets as of December 31, 2009 (in millions)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
Community Bank - Missoula, Inc., Missoula, Montana	\$ 91,302	82.1%
Bitterroot Valley Bank, Lolo, Montana	\$208,514	106.9%

The other bank is significantly larger than CB Missoula. Bank management and the community contacts indicated the bank operates in a highly competitive environment. Numerous financial institutions, including credit unions, operate in the bank's assessment area. Net loan-to-deposit ratio data are not available for credit unions or the branches of regional and national banks. The bank originates a large volume of residential real estate loans that are subsequently sold on the secondary market. The bank's net loan-to-deposit ratio does not reflect this lending activity.

Using Uniform Bank Performance Report data, the 16-quarter average loan-to-deposit ratio for CB Missoula is 82.1%, which is favorable compared to its national peer group average of 78.4%. The national peer group includes all insured commercial banks with assets between \$50 million and \$100 million in a metropolitan area with three or fewer offices.

Overall, the bank's net loan-to-deposit ratio is good, and it indicates the bank's willingness to meet the credit needs of the assessment area. The community contacts did not identify any unmet credit needs in the assessment area.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor this Reserve Bank has received any CRA-related complaints since the previous evaluation.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The evaluation did not reveal any evidence of violations of antidiscrimination laws or regulations, including Regulation B--Equal Credit Opportunity Act, Regulation C--Home Mortgage Disclosure Act, and the Fair Housing Act, or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

Appendix A

Glossary of Common CRA Terms

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation (the Agencies) have adopted the following additional language as part of the revitalize or stabilize definition of community development.

Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies based on:
 - a. Rates of poverty, unemployment, and population loss or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help meet essential community needs, including the needs of low- and moderate-income individuals.

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. It does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

Low-income: Individual income that is less than 50 percent of the area median income or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan statistical area (MSA): An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan to business: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

Small loan to farm: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)