

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 Cheyenne Western Bank, Ashland, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of June 23, 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 the following factors. First, the bank has maintained a steady loan-to-deposit ratio since the previous evaluation. Second, the majority of the bank’s loans are originated inside its designated assessment area. Third, the bank’s lending to borrowers of different income levels and small businesses is excellent and follows the demographic patterns of the assessment area. Finally, the bank actively lends in all of the block numbering areas (“BNA”) within its assessment area, including low- and moderate-income BNAs.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank meets the credit needs of its assessment area effectively. At the previous evaluation, the bank was rated satisfactory in helping to meet the credit needs of its assessment area. The bank's sole office is located in Ashland, Montana. It does not own an automated teller machine.

According to the March 31, 1997, Report of Condition ("ROC"), the bank has total assets of \$6.7 million. Quarterly ROC data show that the bank's total assets and deposits steadily increased from the previous evaluation through the end of the fourth quarter of 1996. During the first quarter of 1997, the total deposits and total assets decreased by \$1.4 million. However, the bank's net loans have remained relatively stable over the same period, ranging from \$2.9 million to \$3.1 million. As of March 31, 1997, the bank's loan portfolio mix is 38% consumer real estate, 29% commercial, 26% consumer, and 7% agricultural loans. The loan portfolio mix has remained relatively constant over the last five quarters. Due to the asset size of the bank, its legal lending limit is very low. This low lending limit prevents the bank from underwriting large agricultural and commercial loans.

The bank offers many loan and deposit products that assist in meeting the credit needs of its assessment area. The loan products include commercial, agricultural, consumer, and residential real estate loans. The bank provides Federal Housing Administration and Department of Veterans Affairs guaranteed residential real estate loans. It also provides loans through credit programs offered and guaranteed by the Bureau of Indian Affairs. The service hours of the bank are sufficient to meet the deposit and credit needs of the assessment area's residents and businesses.

DESCRIPTION OF CHEYENNE WESTERN BANK'S ASSESSMENT AREA

The bank's assessment area includes portions of Big Horn, Rosebud, and Powder River counties in southeastern Montana, including the entire Northern Cheyenne Indian Reservation ("NCIR"). The assessment area consists of six BNAs: 9608, 9626, 9627, 9628, 9642, and 9643. BNAs 9626, 9627, and 9628 are located in Rosebud County. BNAs 9642 and 9643 lie within Big Horn County. BNA 9608 is located in Powder River County. The bank and Ashland are located just outside of the NCIR. However, as previously noted, the bank's assessment area does include the NCIR. The three largest cities in the assessment area are Colstrip, Lame Deer, and Ashland. Lame Deer is approximately 25 miles west and Colstrip is approximately 40 miles northwest of Ashland. According to 1990 census data, the assessment area has a total population of 9,400.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or geography's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% of the statewide nonmetropolitan median family income is considered upper income. BNAs are classified using similar categories based on the level of median family income in the geography. The 1990 U.S. Census data indicate that Montana's statewide nonmetropolitan median family income is \$27,352. According to 1997 U.S. Department of Housing and Urban Development data, the statewide nonmetropolitan median family income in Montana is \$36,100.

As previously mentioned, the bank's assessment area consists of six BNAs. Based on the 1990 census data, BNA 9642 is classified as low income. The population in the low-income BNA is 1,118, or 12% of the total assessment area population. BNA 9627 is classified as moderate income and encompasses the cities of Ashland and Lame Deer. The bank's office is located in BNA 9627. The moderate-income BNA has a population of 2,788, or 30% of the total assessment area population. The NCIR lies within BNAs 9642 and 9627. BNAs 9628 and 9608 are classified as middle income and have a total population of 1,517, or 16% of the assessment area's population. BNAs 9626 and 9643 are classified as upper income and have a total population of 3,977, or 42% of the assessment area's population. The majority of the population in the upper-income BNAs resides in Colstrip, which is located in BNA 9626. BNA 9643 is sparsely populated and has a total population of 184.

Individuals familiar with the economic and demographic characteristics and issues of Ashland and the NCIR were interviewed during the CRA evaluation. Information from these contacts and bank management was used in the evaluation of the bank's CRA performance.

A community contact familiar with Ashland indicated the local area's quality of life has undergone some improvement over the last 18 months. The local community development organization was successful in establishing a medical clinic in Ashland. However, the lack of new residential housing is still a problem. There has been no new housing development since the previous evaluation. The largest employers in Ashland are the St. Labre Mission private school and a logging company, the Northern Cheyenne Pine Company.

Community contacts conducted on the NCIR indicated the current economy is operating at depression levels. Unemployment on the NCIR is running at 70%, with little expected job growth. The NCIR has experienced problems that have crippled the local economy. First, large parts of NCIR are cattle ranches, and cattle prices have been low over the last two years. Second, logging operations on the NCIR have been reduced due to forest fires. As a result, NCIR has cut back on the number of trees being cut down, which caused the local timber mills to cut back on employment. Contacts indicated this level of economic performance has persisted for the last several years.

According to 1990 census data, the median household income for the assessment area is \$27,242, while the median family income is \$29,050. Approximately 22% of the households and 21% of the families in the assessment area have incomes below the poverty level. The following table indicates the percentage of households in the assessment area classified by income level according to CRA guidelines.

ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
	Low Income	Moderate Income	Middle Income	Upper Income
Households	21%	14%	14%	51%

As previously mentioned, the NCIR lies within BNAs 9642 and 9627; BNA 9642 is classified as low income and BNA 9627 is classified as moderate income. The 1990 census data indicate that 97% of the households in the low- and moderate-income BNAs are below the poverty level, and 79% of these households are receiving public assistance. In addition, census data indicate that 76% of the assessment area's low-income households are located in BNAs 9642 and 9627.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs in its assessment is considered satisfactory. Examiners determined this rating by placing greatest emphasis on the bank's distribution of loans to borrowers of different income levels and its lending in the different income BNAs that make up its assessment area. These categories most clearly reflect the bank's commitment to lend to all segments of its community. Much of the analysis in the following pages is based on a statistical sample of 73 consumer loans originated in the six months preceding the evaluation and 42 commercial/small farm loans originated in the 12 months prior to the current evaluation.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio has remained steady since the previous evaluation and meets the standards for satisfactory performance. The quarterly average of the bank's loan-to-deposit ratio since the previous evaluation is 49.76%. The quarterly average ratio noted at the last evaluation was 46%. The bank's ratio has remained relatively stable over the last five quarters, but has increased from the previous evaluation. The following table, which is based on quarterly ROC data, reflects the loan-to-deposit ratio over the last five quarters.

Date	Net Loans (In thousands)	Deposits (In thousands)	Net Loan-to-Deposit Ratio
March 30, 1997	\$3,081	\$6,090	50.5%
December 31, 1996	\$2,958	\$7,509	39.3%
September 30, 1996	\$3,187	\$6,046	52.7%
June 30, 1996	\$3,085	\$5,938	51.9%
March 30, 1996	\$2,964	\$5,442	54.4%

The bank's loan-to-deposit ratio listed in the March 31, 1997, Uniform Bank Performance Report is 51%, which places the bank in the 40th percentile in relation to its peer group. The bank's primary competition is the Colstrip, Montana, branch of First Interstate Bank of Commerce, Billings, Montana. A comparison with this bank would not be useful because of the significant difference in the size of the institutions. In addition, loan and deposit information is not available for branch operations based in Colstrip. There are no other competitor banks located within the assessment area.

The low loan-to-deposit ratio indicated from the December 31, 1996, ROC data resulted from a local government agency receiving grant moneys for the coming year. According to bank management, the funds are usually received at the end of the year, which distorts the ratio. The previous evaluation reflected the same trend in the loan-to-deposit ratio as noted over the last five quarters. In addition, the bank's financial size limits its ability to attract large-dollar agricultural and commercial loans. The assessment area consists primarily of large farming and logging operations. The asset size of the bank does not allow it to provide large-dollar loans to these operations. Instead, the bank originates a significant volume of consumer loans to individuals who work for these operations.

Based on the bank's small asset size and the quarterly average ratio increase from the last evaluation, the bank's performance meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending in the assessment area exceeds the standards for satisfactory performance. Based on a statistical sample of consumer and commercial/small farm loans, the bank originated a sizable majority of loans in its assessment area. The table below shows the percentage of loans originated within the assessment area based on total number and amounts in each of the loan categories sampled.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Major Product Lines Sampled	Total Number of Loans	Total Amount of Loans
Consumer	95	95
Commercial/Small Farm	87	83

As indicated in the table, the major product categories were consumer and commercial/small farm. The percentages reflected in the table indicate the vast majority of the loans sampled have been originated within the assessment area. The concentration of lending in the assessment area exceeds the standards for satisfactory performance.

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

The bank's lending to borrowers of different income levels exceeds the standards for satisfactory performance. As previously mentioned, CRA divides income into four levels: low, moderate, middle, and upper. Because the assessment area is not located in a metropolitan statistical area, a borrower's income level is determined in relation to the statewide nonmetropolitan median family income for Montana. Based on 1990 census data, the median household and family incomes for the bank's assessment area are \$27,242 and \$29,050, respectively. Low-income households comprise 21% of the assessment area, moderate-income households comprise 14%, middle-income households comprise 14%, and upper-income households comprise 51%. The following table shows the percentage of sampled consumer loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
Consumer				
Total Number of loans	47%	28%	19%	6%
Total Amount of Loans	27%	37%	29%	7%

*Income level is determined based on Montana's 1997 nonmetropolitan median family income of \$36,100.

The income data collected from the consumer loan files reflect that 75% of the consumer loans sampled and 64% of the amounts borrowed were originated to low- and moderate-income borrowers. As previously discussed, 35% of the assessment area's households are classified as low and moderate income. Consumer loans represent the second largest percentage of the bank's loan portfolio. The consumer loan sample indicates the bank's lending exceeds the percentage of low- and moderate-income borrowers that reside in the assessment area. As noted previously, the majority of the low- and moderate-income households in the

assessment area reside in BNAs 9642 and 9627. These two BNAs are closest to the bank and do not contain offices of other institutions. In addition, the bank has established its niche in providing small dollar consumer loans to local borrowers. These factors explain the heavy concentration of lending to low- and moderate-income borrowers. The bank's strong concentration of lending to these residents is particularly commendable given the high percentage of low-income borrowers with incomes below the poverty level.

The bank attributes the low lending percentages to upper-income individuals to the demographics of the surrounding area. As confirmed by community contacts, logging and ranching provide most of the employment in Ashland. Jobs in these operations generally pay low wages. The highest-paid individuals in the area are teachers in the local private and public school systems. Most upper-income residents reside a considerable distance from the bank and are closer to other larger institutions.

CRA defines a small business as one with less than \$1 million in gross annual revenues. All of the commercial and small farm loans sampled had less than \$1 million in gross annual revenues. In fact, all of the loans were made in amounts under \$100,000. This distribution of commercial and agricultural loans is consistent with the bank's asset size, legal lending limit, the assessment area's demographics, and overall economic conditions.

Based on the level of small business loans originated and the exceptional level of consumer loans originated to low- and moderate-income borrowers, the bank exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans by income level of geographies throughout its assessment area meets the standards for satisfactory performance. As previously discussed, 1990 census data indicate that 12% of the assessment area's population resides in the low-income BNA, 30% in the moderate-income BNA, 16% in the middle-income BNAs, and 42% in the upper-income BNAs. In addition, 17% of the BNAs that make up the assessment area are classified low income, 17% are moderate income, 33% are middle income, and 33% are upper income. The city of Ashland is geographically closest to the low- and moderate-income BNAs in its assessment area. The following table indicates the bank's lending pattern within its assessment area based on income level of the BNAs.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL				
Loan Type	Low-Income BNA	Moderate-Income BNA	Middle-Income BNA	Upper-Income BNA
Consumer				
Percentage of Total Loans	3%	56%	40%	1%
Percentage of Loan Amounts	2%	42%	53%	2%
Commercial/Small Farm				
Percentage of Total Loans	8%	26%	67%	0%
Percentage of Loan Amounts	3%	19%	78%	0%

The table indicates that 59% of the consumer and 34% of the commercial/small farm loans sampled were originated in the low- and moderate-income BNAs. Approximately 42% of the population in the assessment area resides in these BNAs. Also, 34% of the BNAs in the assessment area are classified as low and moderate income. The bank's lending distribution pattern meets the percentages of the population and BNAs in its assessment area. This lending pattern is attributed to the bank's geographic proximity to the low- and moderate-income BNAs. The bank is located in BNA 9627, which is classified as moderate income. In addition, the other financial institution located in the assessment area is located in one of the upper-income BNAs.

The bank's lending pattern in the upper-income BNAs is less than the percentages of the population and BNAs in its assessment area. There are several reasons for this pattern. First, the upper-income BNAs are a sizable distance from Ashland. As mentioned, Colstrip is the largest city in the assessment area and is located in BNA 9626, which is classified as upper income. Colstrip is more than 40 miles from the bank. Few individuals who live in this BNA conduct their banking business in Ashland; the majority of the population conducts their banking business with financial institutions closer to Colstrip. Second, the southern portion of BNA 9626 and all of BNA 9643 are sparsely populated. The majority of the population in BNA 9626 resides in Colstrip. According to 1990 census data, BNA 9643 has a total population of 184. Finally, the economies of the two upper-income BNAs are predominantly agricultural. As previously noted, due to the bank's limited asset size and expertise, it does not underwrite large commercial/small farm loans.

Based on the bank's consumer and commercial/small farm lending distribution pattern in the low- and moderate-income BNAs and the bank's explanation for the low lending levels in the upper-income BNAs, the bank's geographic distribution of consumer and commercial/small farm loans meets the standards for satisfactory performance.

GENERAL

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

PUBLIC DISCLOSURE

June 23, 1997

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cheyenne Western Bank

Name of Depository Institution

093000200000

Identification Number of Institution

Ashland, 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.