

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 American Bank (Whitefish), Whitefish, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of March 10, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

The bank’s satisfactory CRA rating is based on several factors. First, the bank has maintained an extremely high loan-to-deposit ratio since becoming a member of the Federal Reserve System (“FRS”) on September 14, 1995. Second, it has made a substantial majority of its loans in the assessment area. Third, it has a reasonable distribution of its loans to borrowers of different incomes and to businesses of different sizes. Finally, the bank has a reasonable distribution of loans between block numbering areas (“BNA”) of different income levels.

The following table indicates the performance level of American Bank (Whitefish), Whitefish, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	AMERICAN BANK (WHITEFISH) WHITEFISH, MONTANA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	The bank has not received any CRA complaints since becoming a member of the FRS.		

DESCRIPTION OF INSTITUTION

Based on a variety of factors, the bank is able to effectively meet the assessment area's credit needs. The bank is a de novo institution that opened September 14, 1995. This is the bank's first CRA evaluation since it commenced operations. The bank's only office is in the Mountain Mall, which is on the southern end of Whitefish. The bank has two automated teller machines ("ATM"). These ATMs are located in the Mountain Mall parking lot and in the northern section of Whitefish at the Alpine Village Market gasoline station. These ATMs do not accept deposits.

The bank's continuing growth supports its ability to meet the credit needs of its assessment area. According to the December 31, 1996, Report of Condition ("ROC"), the bank had total assets of approximately \$7.9 million. Total assets have been increasing at a steady pace since the bank's inception. At first, asset growth resulted from commercial loan participations the bank purchased. According to bank management, in the second half of 1996, asset growth resulted from loan demand in the assessment area. The bank's deposits have also increased and, according to December 31, 1996, ROC data, are approximately \$5.4 million. Bank management indicated that attracting new deposits has been difficult due to the competitive nature of the local banking market. According to the December 31, 1996, ROC data, the bank's loan portfolio is broken down as follows: commercial loans comprise 62%, consumer real estate comprise 19%, agricultural loans comprise 14%, and consumer loans comprise 5%.

The bank offers a variety of loan products that help serve the credit needs of residents in its assessment area. Its products include commercial, consumer real estate, consumer, and agricultural loans. Consumer loan types offered by the bank include home equity and overdraft checking lines of credit.

DESCRIPTION OF AMERICAN BANK'S (WHITEFISH) ASSESSMENT AREA

The bank defines its assessment area as the city of Whitefish, Montana, and surrounding countryside. The bank is located in the middle of Flathead County, Montana. The assessment area includes BNAs 3 and 4. The bank's main office and Mountain Mall ATM are located in BNA 4, and the Alpine Village ATM is in BNA 3. According to 1990 census data, BNA 4 is classified as a middle-income BNA and BNA 3 is classified as upper income. The boundary line for the two BNAs runs through the center of Whitefish with the bank's location practically on the border. 1990 census data indicate that the assessment area has a total population of 9,137. BNA 4 has a total population of 5,902, or 65% of the assessment area population. BNA 3 has approximately 3,235 residents, or 35% of the assessment area population.

Individuals familiar with economic development issues and activities in the assessment area were interviewed during the CRA evaluation. Information from these contacts and bank management was used in the evaluation. A community contact stated that the local economy in Whitefish is strong. The contact indicated that Whitefish's economy was in a transition as the major industries, logging and railroad, are in decline. The contact attributed this fact to reduced employment in both of these areas. New industries that have become major employers for Whitefish residents are mining in Columbia Falls, Montana, governmental employment in Kalispell, Montana, and tourism in Whitefish. The contact characterized Whitefish as a bedroom community for Columbia Falls and Kalispell, Montana. A sizable number of winter and summer resorts are located in the Whitefish area. Whitefish is one of the few cities in Montana that is allowed to levy a city tax based on tourism activity. The population of Whitefish increased by 17% from 1980 to 1990.

Economic data provided by the contact and compiled by the Montana Department of Commerce (“MDC”) on Whitefish as of October 1995 reflect that Whitefish has six financial institutions: three banks, two credit unions, and one savings and loan. The contact stated Whitefish is a high-income area.

1990 census data indicate the median housing value in the assessment area is only \$67,826; however, MDC data indicate that the average housing cost in the Whitefish area is \$123,300. A community contact indicated that the lack of affordable housing in the area is starting to become a problem. MDC data indicate the major employers in Whitefish are a railroad company, a hospital, and a resort. The predominant source of income in Whitefish comes from retirement income.

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% or more of the statewide nonmetropolitan median family income is considered upper income. BNAs are classified using similar categories based on the level of the median family income in the different geographies.

As previously mentioned, the two BNAs in the bank’s assessment area are classified as middle and upper income. There are no low- or moderate-income BNAs in the bank’s assessment area. The 1990 census data indicate that Montana’s statewide nonmetropolitan median family income is \$27,352, while its median household income is \$22,345. The median family income for the assessment area is \$30,403, and the median household income is \$26,114. According to the 1996 Department of Housing and Urban Development data, the statewide nonmetropolitan median family income in Montana is \$34,700.

The census data indicate that 20% of the assessment area’s households are classified as low income, 12% are moderate income, 20% are middle income, and 48% are upper income. In addition, the census data indicate that 15% of the families are classified as low income, 16% are moderate income, 25% as middle income, and 44% are upper income. The number of households and families in the assessment area with incomes below the poverty level equals 13% and 10%, respectively.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Analysis of the bank’s lending levels takes into account that the bank opened 19 months before this CRA evaluation. Given the de novo nature of the institution, the bank has done a satisfactory job of meeting the credit needs of its assessment area. Much of the analysis on the following pages was based on reviewing three major loan product categories: commercial, residential real estate, and consumer. The review included a statistical sample of 63 commercial, 29 residential real estate, and 50 consumer loans. The statistical sample of loans included all loans originated by the bank since it started operations.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank’s loan-to-deposit ratio exceeds the standards for satisfactory performance based on the ratio’s consistently high level. The quarterly average of the bank’s loan-to-deposit ratio since September 30, 1995, is 116%. The chart below, based on quarterly ROC data, shows that the bank’s loan-to-deposit ratio

has fluctuated from the start of operations, but has remained relatively steady over the last two quarters.

Date	Net Loans (in thousands)	Deposits (in thousands)	Net Loan-to-Deposit Ratio
December 31, 1996	\$5,700	\$5,467	104%
September 30, 1996	\$5,764	\$5,777	100%
June 30, 1996	\$4,338	\$3,802	114%
March 31, 1996	\$3,122	\$3,561	88%
December 31, 1995	\$2,421	\$2,542	95%
September 30, 1995	\$1,507	\$ 768	196%

At the start of operations, asset and loan growth derived from the bank's purchasing commercial loan participations. Over the last six months, loan growth has increasingly come from loan demand in the assessment area. Bank management indicated that strong banking competition in the assessment area has made deposit growth difficult. According to the December 31, 1996, Uniform Bank Performance Report ("UBPR"), the bank's loan-to-deposit ratio for the quarter places it in the 90th percentile of its peer group banks. As previously discussed, there are six financial institutions serving the Whitefish area. In addition, the loan-to-deposit ratio does not include a number of real estate loans sold to the secondary market. If these loans were included, the bank's loan-to-deposit ratio would increase by a few percentage points.

The average quarterly loan-to-deposit ratio for the competitor bank in the assessment area is 71%. The bank's average loan-to-deposit ratio compares favorably with the quarterly average ratio of this bank. Even though there are a number of competitor financial institutions in Whitefish, examiners are only able to obtain quarterly ROC data on banks. As previously discussed, there are three banks in Whitefish. One of the banks was recently acquired by a larger bank based in Billings, Montana, and converted into a branch office. Examiners cannot obtain loan-to-deposit ratio information specific to that branch office.

Based on the bank's high loan-to-deposit ratio since it started operations, its UBPR ranking, and the lack of liquidity concerns, the loan-to-deposit ratio exceeds the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity within its assessment area meets the standards for satisfactory performance. Based on a review of the loans originated in the three product categories selected, the bank made a majority of its loans to residents and businesses in its assessment area. The following table reflects the percentages of the bank's consumer, residential real estate, and commercial loans by total number and dollar amount originated within the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Major Loan Product Lines	Total Number of Loans	Total Amount of Loans
Consumer	68%	70%
Residential Real Estate	52%	48%
Commercial	54%	38%

As discussed, the bank's assessment area consists of two BNAs that encompass the city of Whitefish and the surrounding areas. The majority of loans have been originated in the bank's assessment area. The percentages in the Total Amount of Loans column for residential real estate and commercial loans reflect

that the bank originated a larger portion of the amount borrowed outside the assessment area. The commercial loan percentage is greatly influenced by commercial loan participations purchased by the bank at the start of operations. The majority of these participations have sizable loan amounts and are outside the assessment area. Recent loan activity has concentrated more heavily on the assessment area. The bank has had limited real estate activity since it began operations. As such, the CRA sample was based on a relatively small number of residential real estate loans.

Because the bank originated the majority of loans in the product categories reviewed in the assessment area, its lending activity meets the standards for satisfactory performance. The relatively low dollar amount of commercial loans in the area is a residual effect of participations purchased early in the bank's existence.

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

The bank's level of lending to individuals of different income levels and to businesses of different sizes is reasonable and meets the standards for satisfactory performance. As previously mentioned, CRA classifies income levels into four categories: low, moderate, middle, and upper. Based on 1990 census data, the median family and household incomes for the bank's assessment area are \$30,403 and \$26,114, respectively. Both figures are higher than the 1990 nonmetropolitan median family and household incomes of \$27,352 and \$22,345 for Montana. These figures reflect the higher income levels of assessment area residents. In addition, 1990 census data indicate the median housing value for the assessment area is \$67,826, while MDC data, as of October 1995, indicate the average housing value in Whitefish is \$123,300. The following table shows the percentages of loans reviewed that were 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	24%	21%	10%	45%
Total Amount of Loans	18%	8%	10%	63%
Residential Real Estate:				
Total Number of Loans	0%	14%	21%	64%
Total Amount of Loans	0%	1%	26%	72%

*Income level is determined based on Montana's 1996 nonmetropolitan median family income of \$34,700.

The table shows that the bank's consumer lending percentages are reasonable. As previously mentioned, census data indicate that 20% of the households in the assessment area are classified as low income, 12% are moderate income, 20% are middle income, and 48% are upper income. The bank's lending percentages for consumer loans to low- and moderate-income households (45%) is higher than the percentage of these households in the assessment area. Likewise, the percentage of lending to middle- and upper-income borrowers is fairly representative of the percentage of such households in the assessment area.

The table also indicates that the percentage of consumer real estate loans originated to low- and moderate-income borrowers is below the percentage of such households in the assessment area. As previously discussed, CRA defines low-income individuals as having incomes of less than 50% of the statewide nonmetropolitan median family income. Moderate-income individuals have incomes of at least 50% but less than 80% of the statewide nonmetropolitan median family income. Montana's 1996 nonmetropolitan median family income is \$34,700. Individuals with an annual income of \$17,350 or less would be classified as low income. Individuals classified as moderate income would have an annual income ranging from \$17,350 to \$27,760. Based on MDC data, individuals in the low- and moderate-income categories would have a difficult time qualifying for residential real estate loans based on the average housing value of \$123,300. Also, the city of Whitefish does not have an affordable housing agency to help meet affordable housing needs.

The bank has a solid record of lending to small businesses in its assessment area. CRA defines a small business as one with \$1 million or less in gross annual revenues. All of the commercial loans sampled had annual revenues of less than \$1 million. Of these loans, 76% were made in amounts under \$100,000. Another 18% of these loans had loan amounts greater than \$100,000 but less than or equal to \$250,000. The remaining 6% of the bank's commercial loans had amounts that exceeded \$250,000. As previously discussed, the bank has a few large dollar commercial loan participations. These commercial loan borrowers have revenues that exceed the \$1 million in gross annual revenue parameter. However, all of these participations are outside the bank's assessment area. The types of commercial loans originated in the bank's assessment area are consistent with its asset size, legal lending limit, and the overall assessment area's economic conditions.

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

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans between the geographies in its assessment area is reasonable and meets the standards for satisfactory performance. The following table illustrates the distribution of the bank's loans by different BNAs. As previously discussed, 1990 census data indicate that 65% of the assessment area's population resides in BNA 4, which is classified as middle income. The remaining 35% reside in BNA 3, which is classified as upper income. The boundary between BNAs 3 and 4 runs through the center of Whitefish.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL		
Loan Type	Middle Income	Upper Income
Consumer:		
Total Number of Loans	68%	32%
Total Amount of Loans	67%	33%
Residential Real Estate:		
Total Number of Loans	40%	60%
Total Amount of Loans	36%	64%
Commercial:		
Total Number of Loans	38%	62%
Total Amount of Loans	40%	60%
*There are no low- and moderate-income BNAs in the bank's assessment area.		

The bank's lending percentages in the consumer loan category follow the representation of the population that reside in these BNAs. The residential real estate loan percentages are almost opposite of the population that resides in these assessment area BNAs. The bank is geographically located on the border between the two BNAs. As a de novo bank, it aggressively looks at underwriting all loans regardless of the borrower's location.

Because the bank actively lends in both of the BNAs that make up its assessment area, the geographic distribution of loans is reasonable and meets the standards for satisfactory performance.

GENERAL

The evaluation did not reveal any practices that are inconsistent with the substantive provisions of the fair lending and fair housing laws and regulations. The bank has not received any CRA complaints since it became an FRS member.

PUBLIC DISCLOSURE

March 10, 1997

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American Bank (Whitefish)

Name of Depository Institution

093010490000

Identification Number of Institution

Whitefish, 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.