

PUBLIC DISCLOSURE

September 13, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Western Security Bank
2812 First Avenue North
Billings, Montana 59101
RSSD 2999845

**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 Outstanding.

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

The Community Reinvestment Act (CRA) performance of Western Security Bank, Billings, Montana (WSB), demonstrates excellent responsiveness to the credit and community development needs of its assessment area.

The bank's performance under the Lending Test is satisfactory based on the following criteria:

- The distribution of loans to borrowers of different income levels and to businesses of different sizes is very good.
- The geographic distribution and dispersion of loans in its assessment area is very good.
- The bank originated a substantial majority of loans within its assessment area.
- The net loan-to-deposit ratio is good given the bank's size and financial condition and the credit needs of the assessment area.

The bank's performance under the Community Development Test is outstanding based on the following criteria:

- The community development activities demonstrate excellent responsiveness to community development needs.
- The bank's community development lending increased significantly in amount and is particularly responsive to community needs.
- The bank's level of community development investments also increased since the previous evaluation.
- Bank directors, officers, and employees provide a high level of service to numerous community development organizations.

WSB was evaluated under the Intermediate Small Bank (ISB) Evaluation Procedures at the August 18, 2008, CRA examination and received a satisfactory rating.

SCOPE OF EVALUATION

The bank was evaluated using the ISB Evaluation Procedures. Under the ISB procedures, the following criteria were analyzed to determine the bank's Lending Test rating:

- Net loan-to-deposit ratio.
- Lending inside the assessment area.
- Lending to borrowers of different income levels and to businesses of different revenue sizes.
- Geographic distribution of loans.
- Record of responding to complaints about the bank's CRA performance.

Also under the ISB procedures, the bank's qualified investments, community development services, and community development loans were reviewed to determine the Community Development Test rating. The Lending Test and Community Development Test were combined to determine the bank's overall rating.

This evaluation of the bank's CRA performance is based in part on information provided by bank management and community contacts. Information from these sources as well as economic and demographic characteristics of the assessment area, competitive factors, and the size and financial condition of the bank were analyzed to understand the bank's performance. The evaluation covers the period from the previous CRA evaluation, August 18, 2008, through September 13, 2010.

WSB currently has one assessment area for CRA purposes. At the previous evaluation, the bank had recently divested its Lewistown, Montana, branch office and the associated assessment area. A full-scope review was conducted for the Billings assessment area, and a limited-scope review was conducted for the Lewistown assessment area. The Lewistown office was divested as of January 19, 2007. For the current evaluation, a full-scope review was conducted for the Billings assessment area.

The scope of this evaluation includes residential real estate, consumer, and small business loans. Table 1 shows data for loans originated in 2009, as provided by the bank for this evaluation. The sample was chosen based on the volume and dollar amount of lending.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Consumer	978	37.4	\$ 7,627,796	3.3
Residential Real Estate	961	36.8	163,049,643	70.6
Small Business	403	15.4	44,455,661	19.3
Home Equity Line of Credit	225	8.6	11,644,853	5.0
Small Farm	45	1.7	4,098,211	1.8
Total	2,612	100.0	\$230,876,164	100.0

To understand the residential real estate mortgage market in the Billings assessment area and the bank's performance in that market, examiners completed an analysis of Home Mortgage Disclosure Act (HMDA) data. WSB is required to report data about residential real estate loan applications under HMDA because it operates offices in a metropolitan statistical area (MSA). The bank's data and the aggregate data reported by all HMDA lenders making loans in the assessment area were analyzed as part of the evaluation.

The bank's Lending Test performance was based on a review of the 1,575 HMDA loans reported for 2008 and 2009, which include home purchase, refinance, and home improvement loans as well as multifamily dwelling loans. The evaluation also was based on statistical samples of 108 small business loans and 137 consumer loans originated between January 1 and June 30, 2010.

In addition, examiners evaluated the bank's community development lending, qualified investments, and community development services in the assessment area. The review period for community development activity was August 18, 2008, to September 13, 2010.

¹Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total exactly 100.0%.

The bank's CRA performance is weighted as follows to determine the overall, Lending Test, and Community Development Test ratings. The Community Development Test received greater weight than the Lending Test because of lower credit demand as a result of current economic conditions. Also as a result of the economic conditions, the need for community services, economic development, affordable housing, etc., has increased while funding sources have decreased. The bank's community development activities, given the competitive banking environment and availability of community development opportunities, received greater weight in determining the overall rating.

- The Community Development Test receives greater weight than the Lending Test because of the bank's high level of community development activities in the assessment area. The bank's community development activity level is outstanding, given the bank's asset size, the competitiveness of the financial institutions serving the assessment area, and the availability of community development opportunities.
- The bank's residential real estate lending activity received the most weight, as it represents the largest percentage of the bank's loans in the sample period by volume and dollar amount.
- For the Lending Test performance criteria, lending to borrowers of different income levels and to businesses of different sizes received the greatest weight. The remaining criteria were weighted equally.

DESCRIPTION OF INSTITUTION

Structure. WSB is wholly owned by Glacier Bancorp, Inc., Kalispell, Montana (GBCI), a multibank holding company. GBCI provides commercial banking services through 106 bank offices in Montana, Idaho, Utah, Wyoming, Colorado, and Washington. In addition to WSB, GBCI owns the ten banks listed below.

- Glacier Bank, Kalispell, Montana
- First Security Bank of Missoula, Missoula, Montana
- Valley Bank of Helena, Helena, Montana
- Big Sky Western Bank, Bozeman, Montana
- Mountain West Bank, Coeur d'Alene, Idaho
- First Bank of Montana, Lewistown, Montana
- Citizens Community Bank, Pocatello, Idaho
- 1st Bank, Evanston, Wyoming
- First National Bank & Trust Company, Powell, Wyoming
- Bank of the San Juans, Durango, Colorado

Offices. WSB operates eight full-service offices: one in Laurel, one in Lockwood, and six in Billings. All locations have extended hours on Friday as well as Saturday drive-up hours. The bank has ten automated teller machines (ATM): one at each current branch, one at the former main office, and one at a local grocery store. Since the previous evaluation, the bank removed an ATM at the local high school and one at a downtown restaurant. WSB has an Internet web site that gives customers the ability to transfer funds between accounts, make loan payments, review account information, and submit consumer and residential real estate credit applications, as well as open deposit accounts electronically. Customers may also enroll in the bank's online bill payment and electronic statement services. In addition, the bank offers 24-hour telephone banking that allows customers to check account balances, transfer funds, and verify other account activity.

Loan portfolio. According to the June 30, 2010, Report of Condition (ROC), the bank has \$609.8 million in total assets and \$316.9 million in total loans. This represents a 7.5% increase in assets but a 9.7% decrease in total loans since the previous evaluation. The ROC data indicates the majority of the bank's lending portfolio is commercial lending. The loan portfolio consists of 65.8% commercial, 25.1% residential real estate, 4.4% consumer, 4.6% agricultural loans, and 0.1% other loans. The bank sells a significant portion of its residential real estate loans on the secondary market. The ROC data does not adequately capture that activity.

Credit products. The bank continues to offer a wide variety of loan products designed to meet the needs of the residents and businesses in the assessment area. The products include open-end and closed-end loans, with either fixed- or variable-rate features, for consumer, residential, commercial, and agricultural purposes. The bank also continues to participate in government-sponsored or -guaranteed loan programs for residential and commercial purposes with the Montana Board of Housing, Federal Housing Administration, Department of Veterans Affairs, Montana Board of Investments, and Small Business Administration.

In addition, WSB collaborates with the Federal Home Loan Bank of Seattle to offer down payment assistance to low- and moderate-income, first-time homebuyers. The bank also participates in two lending programs through the cities of Billings and Laurel, providing down payment and closing cost assistance to low- and moderate-income, first-time homebuyers. The bank's active involvement in these loan programs shows a commitment to serving the credit needs of the assessment area.

Finally, the bank offers a program called Western Security Health Credit. The bank works with area health care facilities and hospitals to provide financing to people who are unable to pay their medical bills. The loans are unsecured and are guaranteed by the health care facility. Eligibility is determined by the health care facility, and most borrowers are low and moderate income.

There are no financial constraints, legal impediments, or other factors that obstruct the bank's ability to meet the credit or other community development needs in its assessment area. The evaluation did not reveal any unmet credit needs in the assessment area.

DESCRIPTION OF ASSESSMENT AREA

The Billings assessment area is defined as Yellowstone County, which is part of the Billings MSA. WSB has eight full-service offices and ten cash-dispensing ATMs in the assessment area. Each office has an ATM. The bank's Heights/Western Center branch is located in a moderate-income tract.

The assessment area includes one low-income, four moderate-income, 16 middle-income, and six upper-income census tracts.

According to the June 30, 2010, Federal Deposit Insurance Corporation Deposit Market Share Report, the bank had deposits of \$484.7 million in Yellowstone County, which represent 14.1% of total deposits in the county. The bank ranks third in deposits out of 11 banks in the county. For the entire state of Montana, the bank ranks eighth out of 78 banks in total deposits, behind larger national, regional, and community banks. Table 2 provides detailed data on the demographic characteristics of the assessment area based on 2000 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	1	3.7	745	2.2	285	38.3	6,571	19.1
Moderate Income	4	14.8	3,956	11.5	740	18.7	6,151	17.8
Middle Income	16	59.3	23,202	67.3	1,691	7.3	8,114	23.5
Upper Income	6	22.2	6,585	19.1	199	3.0	13,652	39.6
Total Assessment Area	27	100.0	34,488	100.0	2,915	8.5	34,488	4.5
<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	1,676	575	1.6	34.3	906	54.1	195	11.6
Moderate Income	7,458	3,663	10.2	49.1	3,369	45.2	426	5.7
Middle Income	36,266	24,610	68.3	67.9	10,036	27.7	1,620	4.5
Upper Income	9,163	7,189	19.9	78.5	1,736	18.9	238	2.6
Total Assessment Area	54,563	36,037	100.0	66.0	16,047	29.4	2,479	100.0
<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	256	3.2	216	3.0	29	5.4	11	3.6
Moderate Income	959	12.0	791	11.0	123	22.7	45	14.8
Middle Income	5,678	70.8	5,111	71.2	348	64.2	219	72.0
Upper Income	1,130	14.1	1,059	14.8	42	7.7	29	9.5
Total Assessment Area	8,023	100.0	7,177	100.0	542	100.0	304	100.0
Percentage of Total Businesses:				89.5		6.8		3.8
<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	9	2.6	8	2.3	1	20.0	0	0.0
Moderate Income	12	3.4	12	3.5	0	0.0	0	0.0
Middle Income	297	85.1	293	85.4	3	60.0	1	100.0
Upper Income	31	8.9	30	8.7	1	20.0	0	0.0
Total Assessment Area	349	100.0	343	100.0	5	100.0	1	100.0
Percentage of Total Farms:				98.3		1.4		0.3

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 Billings MSA. This figure is \$61,900 for 2008, \$60,900 for 2009, and \$63,000 for 2010. For purposes of classifying census tract income levels, this evaluation uses the median family income from the 2000 U.S. Census. This figure was \$44,809.

Population and geographic characteristics. In 2000, the population of the assessment area was 129,352. The 2000 census data also indicates that 8.5% 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 10.5%.

Billings is the largest city in Montana and has enjoyed a growth rate higher than the state as a whole. Billings has consistently grown between 1.5% and 2% per year. The 2009 U.S. Census population estimate is 144,797, an increase of 11.9% since 2000.

Economy. According to a 2010 housing needs assessment conducted by the Billings Planning and Community Services Department, several factors continue to make Billings relatively stable in the midst of a national recession and a very attractive place to live and work:

- Billings passed the 100,000 population threshold in 2006, triggering more interest in the community from large retailers and commercial businesses. Many new businesses have opened in Billings in the last five years.
- In 2008, the city's top ten employers, which come from diverse industry sectors, had more than 500 employees each and maintained a total of 12,865 employees.
- The 2008 median household income for Billings was \$48,470, compared to \$44,042 for the state of Montana.
- Yellowstone County's 2009 unemployment rate was 4.7%, compared to 6.7% for Montana and 9.8% nationally.

According to bank management and community contacts, the Billings area economy has shown recent signs of the economic slowdown, and the people and businesses remain somewhat cautious and concerned. The overall negative impact is not as great as in other parts of the state (such as Missoula, Bozeman, and Kalispell) that experienced significant growth before the downturn in housing and the economy. There is some concern that the local economy may experience further slowdowns. While there have been some negative signs of the economic downturn, Billings benefits from a diverse economy. Major industries in Billings include oil and gas refineries, medical and health care, education, technology, and government. The area also has a large number of retail stores, including many large national retailers. Much of the retail development has occurred in the west end of town.

Housing. According to bank management and community contacts, Billings continues to have affordable housing issues. Too many people in the low- and moderate-income categories cannot afford adequate single-family or rental housing given current wages and incomes. Fortunately, home prices in Billings have remained fairly stable. The contacts estimated that the average home price ranges between \$160,000 and \$200,000. At this price, most low- and moderate-income Billings residents cannot afford a home. The housing stock below this price range is typically older and usually needs major repairs or improvements. The majority of the foreclosures are for homes with values below \$200,000. While the unemployment rate in the Billings MSA and Yellowstone County is lower than the statewide average, the contacts estimated that the annual income for low- and moderate-income workers is between \$15,000 and \$60,000.

Numerous financial institutions operate in the Billings assessment area, including large regional banks, branches of large national banks, and credit unions. Many of these institutions have a long-term presence in the market and well-established relationships with the community. Competition for all loan types is very strong. Community contacts did not identify any unmet credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The CRA rating for WSB is outstanding. This rating is based on a satisfactory rating for the Lending Test and an outstanding rating for the Community Development Test.

LENDING TEST

The bank's performance under the Lending Test is satisfactory based on the following criteria:

- The distribution of loans to borrowers of different income levels and businesses of different sizes in the assessment area is very good.
- The geographic distribution of loans reflects very good dispersion throughout the assessment area and very good distribution among census tracts of different income levels.
- The bank originated a substantial majority of its loans within its assessment area.
- The net loan-to-deposit ratio reflects a good level of lending given the bank's size, financial condition, and credit needs of the assessment area.

The bank's performance is weighted as follows:

- For the Lending Test, the bank's residential real estate lending activity received the greatest weight, followed by small business lending, followed by consumer lending. This weighting reflects the bank's lending activity. The bank sells the majority of its residential real estate loans on the secondary market.
- For the Lending Test performance criteria, lending to borrowers of different income levels and to businesses of different sizes received the greatest weight. The remaining criteria were weighted equally.

Throughout this evaluation, the bank's lending activity is compared to the demographic characteristics obtained from, but not limited to, the 2000 U.S. Census, Dun & Bradstreet, the U.S. Department of Labor, the Montana Department of Labor and Industry, and other sources. Although demographics are 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.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The general purpose of CRA is to encourage banks to meet the credit needs in their assessment areas while operating safely and soundly. To gain an understanding of the bank's lending activity, the bank's net loan-to-deposit ratio is reviewed to assess the willingness of the bank to meet the area's demand for credit.

The bank's net loan-to-deposit ratio represents a good level of lending given the bank's size and financial condition as well as the credit needs and strong competition in the assessment area. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 60.2% to 105.2%. The average net loan-to-deposit ratio at the previous evaluation was 90.0%, which is somewhat higher than the average net loan-to-deposit ratio of 80.1% at this evaluation. The bank's average net loan-to-deposit ratio is slightly lower than the national peer group average net loan-to-deposit ratio of 85.2%. The bank's national peer group includes all insured commercial banks having assets between \$300 million and \$1 billion. The bank's net loan-to-deposit ratio is similar to that of competitor banks operating in the assessment area, as shown in Table 3.

<i>Bank Name and Location</i>	<i>Assets as of June 30, 2010 (in millions)</i>	<i>Average Net Loan- to-Deposit Ratio</i>
Western Security Bank, Billings, Montana	\$ 609,813	80.1%
The Yellowstone Bank, Laurel, Montana	\$ 422,433	93.6%
Rocky Mountain Bank, Billings, Montana	\$ 439,241	82.7%
Stockman Bank of Montana, Miles City, Montana	\$1,859,587	94.8%
First Interstate Bank, Billings, Montana	\$7,203,503	81.9%

The relatively high net loan-to-deposit ratios for these competitor banks suggest that loan demand in the assessment area is high. In general, the net loan-to-deposit ratios for the competitor banks have steadily decreased over the eight quarters of the evaluation period. Absent significant increases in deposits, this decrease suggests that credit demand in the assessment area is diminishing. The bank operates in a competitive market that includes credit unions and local branches of larger regional and national financial institutions; local net loan-to-deposit ratio data is not available for these institutions.

Overall, the bank's net loan-to-deposit ratio represents a good level of lending given the bank's size and financial condition as well as the credit needs and strong competition in the bank's assessment area. The net loan-to-deposit ratio demonstrates the bank's willingness to fulfill credit needs throughout its assessment area. In addition, community contacts and bank management did not identify any unmet credit needs in the assessment area, stating that credit demand has decreased in the latter portion of the evaluation period. For these reasons, the bank's net loan-to-deposit ratio represents a good level of lending.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

CRA emphasizes the importance of banks serving the convenience and credit needs of the individuals and small businesses inside the assessment areas. By extending credit inside their assessment areas, banks fulfill a financial need of the community. This evaluation includes a review of the loans extended inside and outside WSB's assessment area.

The bank's lending inside the assessment area is very good. Table 4 provides detailed lending activity by loan type within the assessment area.

<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Residential Real Estate	1,293	82.1	\$225,058	82.8	282	17.9	\$46,655	17.2
Small Business	101	93.5	\$ 12,033	94.0	7	6.5	\$ 770	6.0
Consumer	117	85.4	\$ 1,069	88.1	20	14.6	\$ 145	11.9
Total	1,511	83.0	\$238,160	83.4	309	17.0	\$47,570	16.6

The bank originated the substantial majority of its loans in the assessment area, specifically, 83.0% of the loans by volume and 83.4% of the loans by dollar amount. The percentage of lending within the assessment area is highest for small business loans, while consumer and residential real estate lending percentages are lower. The reason for the lower percentage of consumer and residential loans is the number of consumer customers who reside outside the assessment area for at least part of the year. In addition, although the bank divested its Lewistown branch office in 2007, residential real estate lending continued in Fergus County in 2008 and 2009 because of established banking relationships. The bank's lending is consistent with the previous evaluation. The bank extends the large majority of loans within its assessment area.

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. WSB is a leader in HMDA lending in the Billings assessment area. Overall, the bank's lending performance exceeds aggregate lenders. The bank offers and participates in several loan programs that help low- and moderate-income borrowers. Table 5 shows the bank's 2008 and 2009 HMDA lending by borrower income.

TABLE 5										
2008 Billings Assessment Area HMDA Loans by Income Level of Borrower										
<i>Loan Type</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
	#	%	#	%	#	%	#	%	#	%
Home Purchase	18	6.1	69	23.3	87	29.4	105	35.5	17	5.7
Refinance	17	8.3	44	21.4	61	29.6	70	34.0	14	6.8
Home Improvement	0	0.0	4	25.0	7	43.8	5	31.3	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	8	100.0
Total 2008 HMDA Loans	35	6.7	117	22.2	155	29.5	180	34.2	39	7.4
2009 Billings Assessment Area HMDA Loans by Income Level of Borrower										
<i>Loan Type</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
	#	%	#	%	#	%	#	%	#	%
Home Purchase	23	7.5	81	26.5	105	34.3	84	27.5	13	4.2
Refinance	22	5.1	74	17.2	96	22.3	171	39.7	68	15.8
Home Improvement	3	10.7	6	21.4	9	32.1	10	35.7	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	2	100.0
Total 2009 HMDA Loans	48	6.3	161	21.0	210	27.4	265	34.6	83	10.8

WSB did a very good job of lending to low- and moderate-income borrowers in 2008 and 2009. The bank extended 28.9% and 27.3% of all HMDA loans to low- and moderate-income borrowers in 2008 and 2009, respectively. Aggregate lenders extended 26.7% of HMDA loans to low- and moderate-income borrowers in 2008 and 24.4% in 2009. The bank's level of extending HMDA loans to low- and moderate-income borrowers exceeds aggregate lenders for refinance loans and is comparable to aggregate lenders for home purchase and home improvement loans.

The bank's lending performance is very good compared to demographic data. According to 2000 census data, 19.1% of families in the assessment area are low income and 17.8% are moderate income. While the bank's lending to low-income borrowers is lower than assessment area demographics, bank management and community contacts explained that the assessment area faces a number of affordable housing issues, and many low-income borrowers are unable to purchase or afford a home. Using the assumption that an individual can obtain a loan for approximately three times his or her annual income, an individual with the highest income in the low-income bracket (\$30,450) can afford a \$91,350 home based on the 2009 HUD estimated median family income of \$60,900 for the Billings MSA. Using the same assumption for an individual with the highest income in the moderate-income bracket (\$48,720), an individual can afford a \$146,160 home. The average home sales price in Billings was \$140,166 for December 2009, according to a local real estate report, and therefore many low-income borrowers cannot afford to purchase homes. Given the assessment area characteristics, including bank management and community contact comments about the lack of affordable housing in the assessment area, the bank's residential real estate lending to borrowers of different income levels is very good. During the past two years, home prices in Billings have not fallen significantly but economic conditions have deteriorated, making it very difficult for low- and moderate-income individuals and families to afford a home.

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

Consumer lending. WSB's consumer lending to low- and moderate-income borrowers is very good. Table 6 provides the lending percentages to borrowers of various income levels.

	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	%	#	%	#	%	#	%	#	%
Consumer	30	25.6	24	20.5	30	25.6	25	21.4	8	6.8
Percentage of Households by Income Levels**	23.0%		16.0%		19.6%		41.5%		0.0	
*Income classification based on 2010 median family income for the Billings MSA.										
**Based on 2000 census data.										

The bank's lending to low- and moderate-income borrowers is very good. The bank originated 25.6% and 20.5% of its consumer loans to low- and moderate-income borrowers, respectively. This compares very well to demographics, which indicates 23.0% and 16.0% of households in the assessment area are considered low and moderate income, respectively. The loans categorized as unknown borrower income reflect consumer loans made to bank employees and long-term bank customers for which income was not used in the credit decision. The bank offers a variety of closed-end and open-end consumer loan products, including automobile loans, debt consolidation loans, home equity lines of credit, and unsecured loans, which facilitates the bank's lending to borrowers of different income levels. WSB offers an unsecured loan for borrowers who need assistance paying health and medical bills not covered by insurance. The payment structure for these loans is flexible and responsive to low- and moderate-income individuals; the minimum payment is \$60.

In addition, the bank extended 22.6% of its consumer loans in amounts of \$3,000 or less. Of these loans, 77.4% were extended to low- and moderate-income borrowers. The small loan amounts indicate a willingness to meet the credit needs of low- and moderate-income borrowers. Bank management mentioned that consumer loans have no minimum loan size and few fees, which helps make credit accessible to low- and moderate-income individuals. In addition, management indicated that the economic downturn and associated job losses have increased the demand for small-dollar loans. The bank does a very good job of originating consumer loans to borrowers of different income levels.

Small business lending. The bank's lending to small businesses is good. Table 7 shows the percentage of small business loans by loan size and business revenue.

TABLE 7				
Small Business Lending in the Assessment Area				
<i>Small Business Loan Originations</i>	<i>≤ \$100,000</i>	<i>> \$100,000 to ≤ \$250,000</i>	<i>> \$250,000 to \$1 Million</i>	<i>Total Originations</i>
Percentage of Small Business Loans	68.3%	20.8%	10.9%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	77.5%	18.3%	4.2%	70.3%

The bank originated 101 small business loans during the sample period in the assessment area. According to 2009 Dun & Bradstreet data, 89.5% of businesses in the assessment area have gross annual revenues of \$1 million or less. The bank extended 70.3% of its small business loans to entities with gross annual revenues of \$1 million or less. Though lower than demographics, the level of lending is good given the competitive market in which the bank operates. The bank originates many of its small business loans in small dollar amounts to help serve small entities. The bank originated 77.5% of the loans to small businesses for amounts of \$100,000 or less and 18.3% for amounts between \$100,000 and \$250,000, demonstrating the bank's willingness to meet the credit needs of small businesses in its assessment area.

Overall, the bank's level of lending to borrowers of different income levels and to businesses of different sizes is very good.

GEOGRAPHIC DISTRIBUTION OF LOANS

The dispersion and distribution of loans throughout the assessment area are very good. The Billings assessment area includes one low-income census tract and four moderate-income tracts, as well as 16 middle-income and six upper-income tracts. WSB extended loans in all but two of the middle-income census tracts in the assessment area; one tract where the bank did not lend is 9405, which is largely rural with a low population and housing count. The low-income census tract is in a mostly commercial and industrial area of downtown Billings with few residents.

Residential real estate lending. The bank's HMDA lending in low- and moderate-income census tracts is very good. Table 8 shows the geographic distribution of HMDA loans for 2008 and 2009.

<i>Loan Type</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	%	#	%	#	%	#	%
Home Purchase	8	2.7	46	15.5	200	67.6	42	14.2
Refinance	0	0.0	21	10.2	155	75.2	30	14.6
Home Improvement	0	0.0	1	6.3	13	81.3	2	12.5
Multifamily	3	37.5	1	12.5	3	37.5	1	12.5
Total 2008 Loans	11	2.1	69	13.1	371	70.5	75	14.3

<i>Loan Type</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	%	#	%	#	%	#	%
Home Purchase	8	2.6	48	15.7	206	67.3	44	14.4
Refinance	4	0.9	40	9.3	295	68.4	92	21.3
Home Improvement	0	0.0	5	17.9	16	57.1	7	25.0
Multifamily	0	0.0	1	50.0	1	50.0	0	0.0
Total 2009 Loans	12	1.6	94	12.3	518	67.5	143	18.6

The bank's residential real estate lending in low- and moderate-income tracts compares favorably to aggregate lenders' performance for 2008 and 2009. Specifically, in 2008, the bank extended 2.1% of HMDA loans in low-income tracts, while aggregate lenders made 1.4% of all HMDA loans in low-income tracts. The bank extended 13.1% of HMDA loans in moderate-income tracts, while aggregate lenders made 9.9% of all HMDA loans in moderate-income tracts.

In 2009, the bank extended 1.6% of HMDA loans in low-income tracts, while aggregate lenders made 1.0% of all HMDA loans in low-income tracts. The bank extended 12.3% of HMDA loans in moderate-income tracts, while aggregate lenders made 8.7% of all HMDA loans in moderate-income tracts.

WSB's HMDA lending is very good given the assessment area's demographic data and the bank's significant volume of HMDA lending. According to the demographic data, only 2.2% of families and 1.6% of owner-occupied units are in the low-income tract. Also according to the demographic data, 11.5% of families and 10.2% of owner-occupied units are in the moderate-income tracts. Given the relatively small number of owner-occupied units in the low- and moderate-income census tracts, residential real estate lending will be limited, which is the case 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 bank's distribution of real estate loans is consistent with aggregate lending and the demographic characteristics of the assessment area.

Consumer and small business lending. The geographic distribution of the bank's consumer loans is good. The geographic distribution of small business loans in census tracts of different income levels is very good. Table 9 shows the distribution of consumer and small business loans in the assessment area by income level of census tract.

TABLE 9								
Geographic Distribution of Small Business and Consumer Loans by Census Tract Income Level*								
<i>Loan Type</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	%	#	%	#	%	#	%
Small Business	5	5.0	22	21.8	68	67.3	6	5.9
Consumer	2	1.7	10	8.5	85	72.6	20	17.1
<i>Demographic Data</i>								
Percentage of Census Tracts	3.7		14.8		59.3		22.2	
Percentage of Small Businesses	3.2		12.0		70.8		14.1	
Percentage of Families	2.2		11.5		67.3		19.1	
Percentage of Households	2.8		13.5		66.5		17.2	
*Income classification of census tracts based on 2000 median family income.								

WSB extended 26.8% of small business loans to entities located in low- and moderate-income tracts. According to the 2009 Dun & Bradstreet data, 3.2% of small businesses are in the low-income tracts and 12.0% are in moderate-income tracts. The bank's lending in low- and moderate-income tracts compares favorably with the demographic data. While it does not appear that any financial institutions are located in the low-income tract, several banks, including WSB, are located in tracts near the low-income tract. Given the high level of competition, the number of financial institutions operating in the Billings assessment area, and the lack of identified unmet credit needs in the low-income census tract, the geographic distribution of small business loans is very good.

The distribution of consumer loans in low- and moderate-income tracts is good. Consumer lending in low- and moderate-income tracts is lower than the assessment area's demographic data. WSB extended 1.7% of consumer loans in the low-income tract, and the demographic data show 2.8% of the assessment area's households are in this tract. In addition, WSB extended 8.5% of consumer loans in the moderate-income tracts, and the demographic data show 13.5% of the assessment area's households are in these tracts. However, the distribution of the bank's consumer loans is good, especially considering the economic conditions and the competitive banking market.

Overall, the geographic distribution of the bank's lending is very good. The bank's loans are dispersed throughout the assessment area and distributed to borrowers in census tracts of various income levels. The lower lending activity in the low-income tract is reasonable given the competitive market and the locations of the bank's offices. Community contacts identified no unmet credit needs for residents and businesses in the low- and moderate-income tracts.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

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

COMMUNITY DEVELOPMENT TEST

The bank's community development activity is excellent given the opportunities in the Billings market and competition among financial institutions. The bank's activity demonstrates outstanding responsiveness to the needs of the assessment area. The bank provided a high level of community services; however, its qualified community development investments and community development

lending were the most responsive to assessment area needs. The community development lending, services, and qualified investments include a mix of activities that help meet various needs of the assessment area.

Qualified investments. The level of community development investments in the assessment area is excellent. Qualified investments total \$4.6 million; they include \$3.2 million in the form of securities and \$107,418 in donations primarily benefiting the bank's assessment area. In addition, the bank is an investor in a New Markets Tax Credit (NMTC) project with its affiliated bank in Helena, Montana. The NMTC investment totals \$1.3 million. The project finances the construction of a health and fitness center in Helena, which is outside the Billings assessment area. Because the bank satisfactorily meets the community development and credit needs in its assessment area, it can receive credit for this investment which serves a regional area. The project will create approximately 50 permanent jobs and help to revitalize a blighted area. The bank's level of investments is particularly noteworthy given limited opportunities, strong competition in the assessment area, and the challenging economic environment. During this evaluation period, the bank purchased one new qualified investment bond for \$1 million and invested in an NMTC. The bank continues to hold two health care revenue bonds in its portfolio, totaling \$2.2 million. The one new qualified school district bond was purchased to finance improvements to a local school that has a high percentage of low- and moderate-income students.

The level of qualified investment donations is excellent. In 2007, bank management and the board of directors developed a selection process called Hands of Hope to provide large donations to organizations in the assessment area. Organizations submit requests showing how the bank's donation will benefit low- and moderate-income people in the assessment area; the bank gives preference to organizations that serve these individuals. This corporate giving program is structured to provide positive, significant impact for the recipients and the community. Also noteworthy is the media focus provided to the recipient organizations. The bank has partnered with a local television station to provide public service announcements featuring the recipient organizations. The bank has received positive feedback from the recipient organizations and their clients about the effectiveness of the program. Of the \$107,418 in total donations, \$85,000 was contributed through the Hands of Hope program. This continued commitment and approach to providing donations demonstrates an excellent responsiveness to the needs of the community, especially during these challenging economic times. At the previous evaluation, donations totaled \$95,453.

Community development lending. The bank is a leader in originating community development loans in the Billings assessment area. The bank originated six community development loans totaling \$2.3 million. Two loans were made to organizations that serve primarily low- and moderate-income people, including a day care facility in the low-income census tract that primarily serves low- and moderate-income households. Three loans involve group housing projects that provide affordable housing for low- and moderate-income people. The bank's support of these affordable housing projects is very responsive to assessment area needs. Finally, the sixth loan was made as part of the downtown Billings revitalization project. Billings targeted a portion of the downtown area as a tax increment financing district, with the goal of economic redevelopment. The loan is an interim construction loan to finance the purchase and renovation of a building for commercial use that borders low- and moderate-income census tracts. The new business will provide jobs for low- and moderate-income people. At the previous evaluation, the bank had originated nine community development loans totaling \$919,732.

Community development services. The bank provides a high level of community development services in the assessment area. Bank officers and employees donate their time to provide financial expertise and technical assistance to organizations that provide economic development, affordable housing, and/or community services to low- and moderate-income individuals. Since the previous evaluation, 16 officers

and employees provided services to two affordable housing organizations, 13 community service organizations, and two economic development organizations. Bank staff serve as board members or finance committee members for these organizations. Of special note is the bank's involvement in the NMTC program. Participation in this program requires the bank to contribute a significant amount of resources and financial expertise.

In addition to community development services, the bank continues to provide a free checking account product for consumers. Finally, the bank offers 24-hour telephone banking with a toll-free telephone number and Internet banking with free bill-payment services.

Overall, the bank's community development activity in the Billings assessment area reflects excellent responsiveness to community development needs. Given the pressures of current economic conditions, the bank's ability to increase its community development activities since the previous evaluation is particularly noteworthy.

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 under the Lending and Community Development Tests 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 under the Lending and Community Development Tests 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.)