

PUBLIC DISCLOSURE

May 10, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers State Bank
103 Main Street
Victor, Montana 59875
RSSD 475354

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

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

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

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

The Community Reinvestment Act (CRA) performance of Farmers State Bank, Victor, Montana, demonstrates reasonable responsiveness to the credit and community development needs of its assessment areas.

Examiners evaluated the bank's CRA performance using the Intermediate Small Bank Examination Procedures, which include a Lending Test and a Community Development Test for purposes of the CRA evaluation.

The Lending Test rating is Satisfactory based on the following criteria:

- The bank's lending to businesses of different sizes and to borrowers of different income levels is excellent.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The bank's net loan-to-deposit ratio is reasonable given the bank's asset size, financial condition, and the credit needs of the assessment areas.
- The bank originated a substantial majority of loans within its assessment areas.
- The bank originated a significant number and dollar amount of the U.S. Small Business Administration's Payment Protection Program (PPP) loans.

The Community Development Test rating is Outstanding based on the following criteria:

- The bank's community development activities show excellent responsiveness to the community development needs in the bank's assessment areas. The bank's levels and nature of community development loans, qualified investments (including donations), and community development services are overall excellent.

The bank received a satisfactory CRA rating at the previous evaluation, dated November 28, 2016.

SCOPE OF EVALUATION

Examiners evaluated the bank's CRA performance based partly on information provided by bank management and by community contacts. Examiners also reviewed economic and demographic data, competitive factors, and the size and financial condition of the bank to understand and evaluate the bank's CRA performance. The CRA evaluation covers the period from November 28, 2016, to May 10, 2021.

For CRA purposes, the bank has four assessment areas. At the previous CRA examination in 2016, the bank had two assessment areas. The bank's four assessment areas – Ravalli, Missoula MSA, Flathead, and Lewis and Clark – are in the western portion of Montana. The Flathead and Lewis and Clark assessment areas are new since the previous evaluation, following the opening of one branch office in Kalispell and one in Helena. Examiners performed full-scope reviews of the Ravalli and Missoula assessment areas and limited-scope reviews of the Flathead and Lewis and Clark assessment areas because deposit and loan activities were limited in these new assessment areas.

According to lending data the bank provided and based on the June 30, 2020, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, most of the bank's activities occur in the Ravalli County assessment area, followed by Missoula. The bank is the leader for deposit market share in the Ravalli assessment area, with 39.0% of the deposits; 82.9% of the bank's total deposits are in the Ravalli County assessment area. The bank is not a market leader for deposits in Missoula County but that assessment area represents 13.4% of the bank's deposits.

Examiners weighted the bank's performance as follows to derive the overall rating:

- Examiners assigned the most weight to the Lending Test. This weighting recognizes that the bank is a full-service community bank and meets the needs of its assessment areas primarily through lending activities. In addition, the bank operates in competitive banking environments, which includes competition for community development opportunities especially in the new assessment areas.
- For the Lending Test, examiners placed the most weight on the bank's lending to businesses of different revenue sizes and to borrowers of different income levels and the geographic distribution of loans. The remaining criteria were weighed equally.
- For the Lending Test examiners placed equal weight on the bank's small business, HMDA, and consumer loans, based on the number and dollar volume of originations.
- For the Lending and the Community Development Test, the bank's activities in the Ravalli County assessment area received the greatest weight, followed by the Missoula MSA assessment area because of the concentration of lending and deposit activity and overall presence in the Ravalli assessment area.

Lending Test Scope

The Lending Test scope covers the bank's primary product lines. The data in Table 1 shows the bank's lending activity between January 1, 2019, and December 31, 2019.

<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>
Construction/Land Development	38	6.2%	6,948,021	12.4%
Consumer	301	49.0%	3,513,312	6.3%
Home Equity Lines of Credit	34	5.5%	4,619,759	8.2%
Letters of Credit	6	1.0%	283,989	0.5%
Residential Real Estate	41	6.7%	7,362,217	13.1%
Small Business (\leq \$1 million)	169	27.5%	20,643,611	36.8%
Commercial ($>$ \$1 million)	5	0.8%	7,744,198	13.8%
Small Farm (\leq \$500,000)	18	2.9%	1,379,483	2.5%
Agricultural ($>$ \$500,000)	2	0.3%	3,684,471	6.6%
Total	614	100.0%	56,179,061	100.0%
<i>Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.</i>				

The Lending Test is based on a statistical sample of the bank's small business and consumer loans. The loan sample includes 130 small business loans and 172 consumer loans originated between July 1, 2020, and December 31, 2020.

Because the bank has offices in an MSA and is required to report Home Mortgage Disclosure Act (HMDA) loans, examiners also analyzed the bank's 2019 and 2020 HMDA-reportable loans. Examiners reviewed the bank's 2016, 2017, and 2018 data for consistency with its 2019 and 2020 HMDA data but did not include the earlier years of HMDA data in this evaluation. Furthermore, examiners reviewed HMDA data reported by aggregate lenders to better assess the bank's HMDA lending performance; the 2020 aggregate HMDA data was not available at the time of the evaluation.

Examiners analyzed the following criteria to determine the Lending Test rating:

- Lending to businesses of different sizes and to borrowers of different income levels
- Geographic distribution of loans
- Net loan-to-deposit ratio
- Lending inside the assessment areas
- The bank's record of responding to complaints about its CRA performance

The bank has not received any CRA-related complaints since the previous evaluation.

Community Development Test Scope

Examiners reviewed the bank's community development lending, qualified investments, and community development services since the previous evaluation for each assessment area. Examiners based the

Community Development Test rating on the bank's performance during the period of November 28, 2016, through May 9, 2021.

DESCRIPTION OF INSTITUTION

Structure. Farmers State Bank is a community bank wholly owned by Farmers State Financial Corporation, Victor, Montana.

Offices and Retail Delivery Systems. The bank's main office is in Victor, and it operates eight branches in Missoula, Lolo, Florence, Hamilton, Darby, Stevensville, Helena, and Kalispell, Montana. In addition, the bank operates an LPO in Missoula. The Helena and Kalispell branches and the LPO are new since the last evaluation. The Kalispell branch opened as an LPO in 2017 and was converted to a branch in 2018. The Helena branch opened in 2017. In addition, the bank opened the Missoula LPO, which only originates commercial loans, in 2017.

Each branch is a full-service office. Four branches and the main office are in Ravalli County, while two branches and the LPO are in Missoula County. The main office and all branches operate full-service ATMs and have drive-up facilities. The Florence, Hamilton, Lolo, Missoula, and Stevensville drive-up facilities offer extended weekday hours and Saturday hours. The Helena and Kalispell drive-up facilities offer extended weekday hours.

The bank offers online, mobile, and telephone banking, and access to the ATM network. Customers can use these options to review account information, transfer funds, make payments, and view periodic statements. Customers can also apply online for consumer and home mortgage loans.

Loan Portfolio. According to the March 31, 2021, Report of Condition, the bank's assets total \$577.7 million. The bank's \$340.8 million loan portfolio consists of 69.4% commercial, 20.2% residential real estate, 6.1% agricultural, 3.4% consumer, and 0.9% other loans. The composition of the loan portfolio has remained relatively consistent since the previous evaluation; however, the bank's loans have increased significantly.

Credit Products. The bank offers a wide variety of loan products to meet the credit needs of the residents and businesses in its assessment areas. Commercial lending is the bank's primary focus. In addition to conventional loan products, the bank actively participates in a variety of SBA loan programs. For residential real estate loans, the bank offers conventional loans as well as loans through government-sponsored programs, including the U.S. Department of Veterans Affairs, and first-time homebuyer loans. The bank also offers traditional closed- and open-end consumer loans.

DESCRIPTION OF ASSESSMENT AREAS

For CRA purposes, the bank has four assessment areas – Ravalli, Missoula MSA, Flathead, and Lewis and Clark – located in the western portion of Montana. At the previous CRA examination in 2016, the bank had two assessment areas: Ravalli and Missoula MSA. The Ravalli assessment area includes all of Ravalli County. Five bank offices are in this assessment area. The Missoula MSA assessment area includes all of Missoula County and is adjacent to the Ravalli assessment area. Two bank offices, as well as the LPO, are in this assessment area. The bank has not changed the delineation of these two assessment areas since the last evaluation; however, the income classification of some tracts has changed. The bank has two new assessment areas as a result of adding new branches in those areas: Flathead, comprised of a portion of Flathead County, and Lewis and Clark, comprised of a portion of Lewis and Clark County. The new Kalispell office, located in Flathead County, opened in mid-2018. The Helena office, located in

Lewis and Clark County, opened in late 2017. The Missoula and Kalispell assessment areas include small portions of the Flathead Indian Reservation; the Flathead Indian Reservation is primarily in Lake and Sanders counties. Examiners conducted full-scope reviews of the Ravalli and Missoula MSA assessment areas. Examiners conducted limited-scope reviews for the Flathead, and Lewis and Clark assessment areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's CRA rating is Satisfactory. The rating is based on a Satisfactory rating for the Lending Test, and an Outstanding rating for the Community Development Test.

LENDING TEST

Examiners rated the bank's Lending Test performance Satisfactory. The primary factors supporting the Lending Test rating include the following:

- Overall, lending to borrowers of different income levels and to businesses of different sizes is excellent.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment areas.
- The bank originated a substantial majority of loans within its assessment areas.
- The bank's net loan-to-deposit ratio reflects a reasonable level of lending.

Since the bank has an assessment area in an MSA, the CRA requires a separate analysis of the bank's performance in the MSA. The Missoula MSA and Ravalli assessment area sections of this report include a detailed analysis of the bank's lending to businesses of different sizes and to borrowers of different income levels, as well as the geographic distribution of loans. Examiners analyzed the bank's performance in the limited-scope assessment areas to ensure the bank's performance was consistent with the full-scope assessment areas. Examiners analyzed the net loan-to-deposit ratio and the comparison of lending inside and outside the assessment areas at the bank level, as described below.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable given its asset size, financial condition, and the credit needs and competition in the assessment areas. As of March 31, 2021, the net loan-to-deposit ratio for the bank is 66.6%, which is below the national peer group's net loan-to-deposit ratio of 75.8%. The bank's national peer group includes all insured commercial banks with assets between \$300 million and \$1 billion. The bank's 18-quarter average net loan-to-deposit ratio of 68.6% is an increase from the previous evaluation, which had an 18-quarter average net loan-to-deposit ratio of 52.2%. Since the previous evaluation, the net loan-to-deposit ratio has ranged from 56.0% to 75.3%. Table 2 shows the total assets and 18-quarter average net loan-to-deposit ratio for the bank and similarly situated financial institutions operating in the assessment areas.

<i>Bank Name and Location</i>	<i>Assets as of 9/30/2020 (in millions)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
Farmers State Bank, Victor, MT	\$577.7	68.6%
American Bank, Bozeman, MT	\$588.1	72.5%
First Montana Bank, Inc., Missoula, MT	\$435.5	86.7%
Rocky Mountain Bank, Billings, MT	\$620.8	74.0%

The bank's net loan-to-deposit ratio is reasonable, given the credit needs and opportunities in its assessment areas. The bank competes with several financial institutions, including credit unions and national banks. The bank is an active lender in competitive markets. Community contacts did not identify any unmet credit needs in the assessment areas.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREAS

The bank originated a substantial majority of its loans within its assessment areas, specifically, 92.7% by number and 92.9% by dollar amount. Table 3 shows lending activity by loan type within the assessment areas.

Loan Types	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Other Loan Data	160	93.0	1,535	85.4	12	7.0	262	14.6
Total Consumer related	160	93.0	1,535	85.4	12	7.0	262	14.6
Home Improvement	53	98.1	5,311	98.2	1	1.9	100	1.8
Home Purchase - Conventional	549	93.7	134,839	94.4	37	6.3	7,969	5.6
Home Purchase - FHA	14	93.3	2,989	96.5	1	6.7	109	3.5
Home Purchase - VA	24	92.3	6,755	89.9	2	7.7	755	10.1
Multi-Family Housing	15	83.3	17,950	93.1	3	16.7	1,331	6.9
Other Purpose Closed-End	38	95.0	3,259	82.3	2	5.0	703	17.7
Refinancing	469	92.9	103,290	92.1	36	7.1	8,815	7.9
Total HMDA related	1,162	93.4	274,393	93.3	82	6.6	19,782	6.7
Small Business	111	85.4	13,533	86.8	19	14.6	2,055	13.2
Total Small Bus. related	111	85.4	13,533	86.8	19	14.6	2,055	13.2
TOTAL LOANS	1,433	92.7	289,461	92.9	113	7.3	22,099	7.1

Bank management indicated that the bank's focus is to provide loans to borrowers who live or work in the assessment areas. However, the bank also originates loans to existing customers who may be outside of the assessment areas, generally, to maintain banking relationships. The bank's lending shows its commitment to meeting the credit needs of residents and businesses within its assessment areas.

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

Overall, the bank's lending to businesses of different sizes and to borrowers of different income levels is excellent. The bank actively lends to businesses with gross annual revenues of \$1 million or less and to low- and moderate-income individuals. The assessment area sections provide more detailed information on the borrower distribution of loans.

As noted previously, during the evaluation period, the bank participated in the PPP, which started in April 2020. The PPP is an SBA-backed loan that was designed to help businesses keep their workforce employed during the COVID-19 pandemic (pandemic). PPP borrowers may be eligible for loan forgiveness if the borrower meets certain conditions. The bank originated over 600 PPP loans totaling more than \$27.0 million in 2020 and 2021, with all loans having original balances below \$1.0 million. The small business sample included 28 of these loans.

GEOGRAPHIC DISTRIBUTION OF LOANS

The overall geographic distribution of loans reflects a reasonable dispersion throughout the assessment areas, including low- and moderate-income census tracts. Lending patterns do not reveal any unexplained gaps in lending. Refer to the assessment area sections for a more detailed discussion of the geographic distribution of loans.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints concerning the bank since the previous evaluation.

COMMUNITY DEVELOPMENT TEST

The bank's Community Development Test rating is Outstanding. The bank's community development activities demonstrate excellent responsiveness to identified community development needs. The bank engaged in community development lending, provided community development services, and made qualified investments in the form of securities and donations.

Community Development Loans. The bank's community development lending is excellent. The bank originated 13 community development loans totaling \$11.9 million that benefited its Ravalli and Missoula MSA assessment areas. The loans support economic development and revitalization and stabilization of moderate-income tracts. Bank management indicated that the bank had more opportunities in these assessment areas than in the Flathead and Lewis and Clark assessment areas. Although the bank did not make any community development loans in the Flathead and Lewis and Clark assessment areas, this is reasonable and is mainly due to competition and limited opportunities. Overall, the bank's community development lending shows an excellent responsiveness to community development needs.

Qualified Investments. The bank's level of qualified investments is excellent. The bank purchased five new securities, totaling approximately \$1.4 million, that directly benefit the bank's assessment areas. Of this total, \$405,000 benefited the Ravalli County assessment area and \$970,000 benefited the new Flathead assessment area. The bank also continued to hold three prior-period investments totaling \$395,000 that benefit the Ravalli assessment area. The new and prior-period investments support community service to low- and moderate-income individuals, as well as revitalization and stabilization of moderate-income tracts by providing financing to local schools. The bank also made new investments

with an economic development purpose, totaling \$2.2 million, that benefited areas outside of the bank's assessment areas. The bank also continues to hold \$8.2 million in prior-period investments with an economic development purpose that benefit areas outside of the bank's assessment areas.

The bank made an excellent level of donations in its assessment areas, totaling \$142,665 during the evaluation period. Specifically, the bank made donations of \$103,285 in the Ravalli County assessment area, \$32,630 in the Missoula MSA assessment area, \$6,250 in the Lewis and Clark assessment area, and \$500 in the Flathead assessment area. In addition to the donations in its assessment areas, the bank also made \$13,070 in donations benefiting a larger regional area that includes the bank's assessment areas and \$1,000 in donations benefiting the state of Montana. Most of the bank's donations benefited the Ravalli assessment area, where the bank has the largest market presence.

Community Development Services. The bank's level of community development services is adequate. During the evaluation period, the bank provided 25 community development services, which benefited the Ravalli, Missoula, and Lewis and Clark assessment areas. Employees contributed their financial expertise to four organizations in the assessment areas that promote economic development and provide essential community services to low- and moderate-income individuals. In addition, the bank provided five community development services, which benefited a broader regional area, including the bank's assessment areas. An employee provided these community development services to an organization that provides community services to low- and moderate-income individuals.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The examination did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B—Equal Credit Opportunity Act and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

NONMETROPOLITAN AREA – FULL REVIEW

DESCRIPTION OF THE RAVALLI ASSESSMENT AREA

Bank Information. The bank operates its main office and four full-service branches in the Ravalli assessment area. The main office is in Victor and the branches are located in Darby, Florence, Hamilton, and Stevensville. The bank has not opened or closed any branches in the assessment area since the previous evaluation. Each office has an ATM and a drive-up facility. The main office and the Darby and Hamilton branches are located in moderate-income census tracts, the Stevensville branch is in a middle-income tract, and the Florence branch is in an upper-income tract.

According to the June 30, 2020, FDIC Deposit Market Share Report, the bank has \$367.2 million in deposits in the Ravalli County assessment area, representing a market share of 39.0%. Farmers State Bank ranks first out of 7 FDIC-insured institutions with offices in the county. The bank's deposits in this assessment area represent 82.9% of its total deposits.

Assessment Area. The Ravalli assessment area includes Ravalli County in its entirety, which consists of 10 census tracts. The bank has not changed the assessment area since the previous evaluation; however, the income classification of some tracts has changed. At the previous evaluation, the assessment area included one moderate-income, eight middle-income, and one upper-income census tracts. Currently, there are four moderate-income, five middle-income, and one upper-income census tracts. None of the census tracts are classified as distressed and/or underserved. Table 4 shows the demographic characteristics of the Ravalli assessment area.

Table 4								
Ravalli Assessment Area Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	2,627	24.9
Moderate-income	4	40.0	4,352	41.3	637	14.6	1,933	18.3
Middle-income	5	50.0	5,131	48.7	578	11.3	2,272	21.6
Upper income	1	10.0	1,052	10.0	73	6.9	3,703	35.1
Unknown income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	10	100.0	10,535	100.0	1,288	12.2	10,535	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	8,798	4,631	40.0	52.6	2,809	31.9	1,358	15.4
Middle-income	9,174	5,773	49.9	62.9	1,991	21.7	1,410	15.4
Upper income	1,594	1,172	10.1	73.5	273	17.1	149	9.3
Unknown income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	19,566	11,576	100.0	59.2	5,073	25.9	2,917	14.9
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	1,282	48.4	1,191	47.8	82	59.9	9	42.9
Middle-income	1,127	42.6	1,068	42.9	48	35.0	11	52.4
Upper income	239	9.0	231	9.3	7	5.1	1	4.8
Unknown income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2,648	100.0	2,490	100.0	137	100.0	21	100.0
	Percentage of Total Businesses:			94.0		5.2		0.8

Table 4 Ravalli Assessment Area Demographics									
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income		
	#	%	#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	2,627	24.9	
Moderate-income	4	40.0	4,352	41.3	637	14.6	1,933	18.3	
Middle-income	5	50.0	5,131	48.7	578	11.3	2,272	21.6	
Upper income	1	10.0	1,052	10.0	73	6.9	3,703	35.1	
Unknown income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	10	100.0	10,535	100.0	1,288	12.2	10,535	100.0	
	Total Farms by Tract		Farms by Tract & Revenue Size						
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate-income	83	36.7	83	37.1	0	0.0	0	0.0	
Middle-income	129	57.1	127	56.7	2	100.0	0	0.0	
Upper income	14	6.2	14	6.3	0	0.0	0	0.0	
Unknown income	0	0.0	0	0.0	0	0.0	0	0.0	
Total Assessment Area	226	100.0	224	100.0	2	100.0	0	0.0	
	Percentage of Total Farms:			99.1		0.9		0.0	

2020 FFIEC Census Data and 2020 D&B Information

Income. For purposes of classifying borrower incomes, this evaluation uses the FFIEC median family incomes. For borrowers in the nonmetropolitan areas of Montana, this figure is \$60,300 for 2016, \$60,500 for 2017, \$66,700 for 2018, \$65,100 for 2019, and \$67,600 for 2020. For purposes of classifying census tracts by income level, this evaluation relies on the FFIEC adjusted census data median family income for the nonmetropolitan areas of Montana, which was \$54,061 for 2016; \$59,958 for 2017 and 2018; and \$59,777 for 2019 and 2020.

Population Characteristics. The population in the Ravalli assessment area is 40,823. Table 5 shows the population change from the 2010 census to the 2015 U.S. Census Bureau American Community Survey (ACS). The percentage of population growth in the Ravalli assessment area (1.5%) is lower than for the state of Montana (2.6%). According to U.S. Census Bureau estimates, the 2019 population of Ravalli County is 43,806 (an increase of 8.9% since the 2010 census). The largest group, 51.0%, of the assessment area population is 25 to 64 years of age. The remaining population by age is as follows: 20.8% of residents are 17 years of age and younger, 6.4% are 18 to 24 years of age, and 21.9% are 65 and over.

Table 5 Total Population			
Area	2010 Population	2015 Population	% Change
Ravalli assessment area	40,212	40,823	1.5
Non-MSA Montana	631,622	647,395	2.5
Montana	989,415	1,014,699	2.6
<i>Source: 2010 U.S. Census Bureau Decennial Census 2011-2015 U.S. Census Bureau American Community Survey</i>			

Of the 16,649 households in the assessment area, 28.2% are low income and 18.4% are moderate income. The percentages of low- and moderate-income households in the assessment area are consistent with the statewide percentages at 23.8% and 16.6%, respectively. In addition, 16.7% of the households in the assessment area have incomes below the poverty level; this rate is higher than the statewide percentage of 14.5%.

Economy. According to a community contact, the economy of the area has been relatively stable. Although the area has felt some effects from the pandemic, stimulus programs helped the area sustain its economy. A community contact indicated the area economy includes a variety of businesses. Major employers include the school districts, GlaxoSmithKline plc, Lubrizol Corporation, and Rocky Mountain Laboratories. A contact indicated the area is composed of primarily locally owned small businesses. Logging has steadily declined over the years but is still a part of the local economy. Tourism also plays a small part as an economic activity, as there are some recreational opportunities in the area. The service industry employs a small number of people, although the pay is low. Of late, this industry is rebounding after the pandemic caused job losses.

Bank management indicated that agriculture is a big industry in Ravalli County, although the industry continues to shrink. The agriculture products are hay and livestock. The pandemic affected the prices of livestock, which are trending down.

The unemployment rate in the assessment area fluctuated during this period and is trending slightly downward, but it continues to be higher than the statewide rate. Table 6 shows the unemployment rates for the Ravalli assessment area, nonmetropolitan Montana, and the state for a recent three-year period.

Table 6			
Unemployment Rates			
Area	2017	2018	2019
Ravalli AA 2020	4.8%	4.3%	4.2%
Non-MSA Montana	4.3%	4.0%	3.8%
Montana	4.1%	3.8%	3.6%

Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics

Housing. The primary housing concern in the assessment area is the availability of housing, including affordable housing for low- and middle-income individuals. Affordable housing is an issue for both renters and potential homeowners. Bank management and a community contact said that housing costs are increasing in the area. According to bank management, the average selling price of a home in Ravalli County is \$450,000. The community contact also stated that local owners are putting their rental units on the market as home prices are increasing. In addition, people from other states, including retirees and people who work from home, have been moving into the area. These factors have reduced the affordability and availability of rental units as well as homes.

According to 2020 adjusted census data from the Federal Financial Institutions Examination Council (FFIEC), the assessment area has 19,566 housing units: 59.2% are owner occupied, 25.9% are rentals, and 14.9% are vacant. The median age of the housing stock is 34 years. The median housing value for the assessment area is \$238,978, and the affordability ratio is 16.5, compared to \$186,200 and 33.0 for the state, respectively. The affordability ratio is the median household income divided by the median housing value. This ratio suggests that, overall, housing in the Ravalli assessment area is less affordable than in other areas of the state.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA IN THE RAVALLI ASSESSMENT AREA

The bank's performance under the Lending Test in the Ravalli assessment area is reasonable. This assessment area accounts for most of the bank's lending and a significant portion of community development activities. The bank's overall Community Development Test performance in this assessment area is excellent and demonstrates excellent responsiveness to community development needs.

LENDING TEST

Overall, the bank's lending to businesses of different sizes and to borrowers of different income levels is excellent, and the geographic distribution of loans reflects a reasonable dispersion throughout the assessment area and does not reveal unexplained gaps in lending.

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

Small Business Lending. The bank's small business lending in the assessment area is excellent. Table 7 shows the bank's small business lending.

Table 7					
Distribution of 2020 Small Business Lending By Revenue Size of Businesses					
Assessment Area: Ravalli AA					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	\$%	
By Revenue					
\$1 Million or Less	76	100.0	8,707	100.0	94.0
Over \$1 Million	0	0.0	0	0.0	5.2
Revenue Unknown	0	0.0	0	0.0	0.8
Total	76	100.0	8,708	100.0	100.0
By Loan Size					
\$100,000 or Less	53	69.7	1,741	20.0	
\$100,001 - \$250,000	8	10.5	1,345	15.4	
\$250,001 - \$1 Million	15	19.7	5,621	64.5	
Total	76	100.0	8,708	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	53	69.7	1,741	20.0	
\$100,001 - \$250,000	8	10.5	1,345	15.4	
\$250,001 - \$1 Million	15	19.7	5,621	64.6	
Total	76	100.0	8,707	100.0	
<i>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.</i>					

The bank originated 100.0% of its small business loans to entities with gross annual revenues of \$1 million or less. The bank’s lending exceeds demographics, which indicate that 94.0% of businesses in the assessment area have gross annual revenues of \$1 million or less. Overall, 69.7% of the loans were for \$100,000 or less, which indicates the bank’s willingness to serve the credit needs of smaller entities.

Of the 76 loans in the small business analysis for the Ravalli assessment area, 21 of those loans are PPP loans. The bank’s active participation in this program further demonstrates the bank’s commitment to serving the small businesses in its assessment areas.

HMDA Lending. The bank’s HMDA lending to low- and moderate-income borrowers is reasonable.¹ Table 8 below shows the bank’s HMDA lending by borrower income level and product type for 2019 and 2020. The table also includes aggregate (Agg) lending data for 2019 and demographics for families at various income levels in the Ravalli assessment area.

¹ Examiners did not evaluate the following categories of HMDA loans: other purpose, other purpose lines of credit, and loans with a purpose not applicable.

Table 8 (1 of 2)											
Distribution of 2019 and 2020 Home Mortgage Lending By Borrower Income Level											
Assessment Area: Ravalli AA											
Borrower Income Level	Bank And Aggregate Loans By Year										Families by Family Income %
	2019						2020*				
	Bank		Agg	Bank		Agg	Bank				
	#	#%	#%	\$(000)	\$%	\$%	#	#%	\$(000)	\$%	
Home Purchase Loans											
Low	5	5.6	4.3	510	1.9	13.4	4	5.3	630	2.8	24.9
Moderate	11	12.2	16.0	2,238	8.3	18.6	10	13.2	1,589	7.0	18.3
Middle	17	18.9	25.1	3,730	13.9	47.0	18	23.7	4,563	20.1	21.6
Upper	47	52.2	43.1	14,905	55.6	19.7	42	55.3	14,965	66.0	35.1
Unknown	10	11.1	11.5	5,426	20.2	0.0	2	2.6	920	4.1	0.0
Total	90	100.0	100.0	26,809	100.0	0.0	76	100.0	22,667	100.0	100.0
Refinance Loans											
Low	3	5.0	3.2	444	3.3	0.0	5	3.8	465	1.6	24.9
Moderate	6	10.0	18.4	837	6.2	0.0	25	19.2	3,854	13.1	18.3
Middle	18	30.0	21.4	3,654	27.0	0.1	35	26.9	7,703	26.2	21.6
Upper	24	40.0	39.9	6,791	50.2	0.3	53	40.8	14,816	50.5	35.1
Unknown	9	15.0	17.1	1,815	13.4	0.9	12	9.2	2,524	8.6	0.0
Total	60	100.0	100.0	13,541	100.0	100.0	130	100.0	29,362	100.0	100.0
Home Improvement Loans											
Low	0	0.0	1.8	0	0.0	2.7	1	10.0	37	5.0	24.9
Moderate	1	20.0	8.8	62	22.8	9.0	1	10.0	125	16.9	18.3
Middle	0	0.0	28.1	0	0.0	32.7	3	30.0	272	36.8	21.6
Upper	3	60.0	59.6	153	56.3	54.9	3	30.0	197	26.7	35.1
Unknown	1	20.0	1.8	57	21.0	0.6	2	20.0	108	14.6	0.0
Total	5	100.0	100.0	272	100.0	100.0	10	100.0	739	100.0	100.0
Multifamily Loans											
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	24.9
Moderate	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	18.3
Middle	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	21.6
Upper	0	0.0	50.0	0	0.0	11.6	0	0.0	0	0.0	35.1
Unknown	1	100.0	50.0	870	100.0	88.4	0	0.0	0	0.0	0.0
Total	1	100.0	100.0	870	100.0	100.0	0	0.0	0	0.0	100.0
Total Home Mortgage Loans											
Low	10	5.8	3.9	1,129	2.6	1.7	12	5.4	1,344	2.5	24.9
Moderate	23	13.5	16.4	3,491	8.2	12.4	36	16.2	5,568	10.5	18.3
Middle	37	21.6	23.2	7,517	17.6	20.8	58	26.1	12,646	23.8	21.6
Upper	79	46.2	42.5	22,372	52.3	49.4	100	45.0	30,049	56.5	35.1
Unknown	22	12.9	14.1	8,270	19.3	15.7	16	7.2	3,552	6.7	0.0
Total	171	100.0	100.0	42,779	100.0	100.0	222	100.0	53,159	100.0	100.0

Source: 2020 FFIEC Census Data

2011-2015 U.S. Census Bureau: American Community Survey

Note: Percentages may not total 100.0 percent due to rounding.

* 2020 aggregate data is not currently available.

Table 8 (2 of 2)											
Distribution of 2019 and 2020 Home Mortgage Lending By Borrower Income Level											
Assessment Area: Ravalli AA											
Borrower Income Level	Bank And Aggregate Loans By Year										Families by Family Income %
	2019						2020*				
	Bank		Agg	Bank		Agg	Bank				
	#	%	%	\$(000)	%	%	#	%	\$(000)	%	
Other Purpose LOC											
Low	0	0.0	0.0	0	0.0	2.2	0	0.0	0	0.0	24.9
Moderate	0	0.0	0.0	0	0.0	13.8	0	0.0	0	0.0	18.3
Middle	0	0.0	0.0	0	0.0	12.0	0	0.0	0	0.0	21.6
Upper	0	0.0	0.0	0	0.0	70.0	0	0.0	0	0.0	35.1
Unknown	0	0.0	0.0	0	0.0	2.0	0	0.0	0	0.0	0.0
Total	0	0.0	0.0	0	0.0	100.0	0	0.0	0	0.0	100.0
Other Purpose Closed/Exempt											
Low	2	13.3	19.0	175	13.6	0.0	2	33.3	212	54.2	24.9
Moderate	5	33.3	0.0	354	27.5	0.0	0	0.0	0	0.0	18.3
Middle	2	13.3	19.0	133	10.3	0.0	2	33.3	108	27.6	21.6
Upper	5	33.3	52.4	523	40.6	0.0	2	33.3	71	18.2	35.1
Unknown	1	6.7	9.5	102	7.9	0.0	0	0.0	0	0.0	0.0
Total	15	100.0	100.0	1,287	100.0	0.0	6	100.0	391	100.0	100.0
Purpose Not Applicable											
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	24.9
Moderate	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	18.3
Middle	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	21.6
Upper	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	35.1
Unknown	0	0.0	0.0	0	0.0	100.0	0	0.0	0	0.0	0.0
Total	0	0.0	0.0	0	0.0	100.0	0	0.0	0	0.0	100.0
<i>Source: 2020 FFIEC Census Data</i>											
<i>2011-2015 U.S. Census Bureau: American Community Survey</i>											
<i>Note: Percentages may not total 100.0 percent due to rounding. *Aggregate data is not currently available.</i>											

In 2019 the bank originated 5.8% of its HMDA loans to low-income borrowers and 13.5% to moderate-income borrowers. The bank’s lending is below demographics. The bank’s lending to low-income borrowers is comparable to aggregate lenders, at 3.9%, and its lending to moderate-income borrowers is slightly below aggregate lenders, at 16.4%. In 2020, the bank originated 5.4% and 16.2% of its HMDA loans to low- and moderate-income borrowers, respectively. The bank’s lending is below demographics for low-income borrowers and comparable to demographics for moderate-income borrowers.

Overall, the bank’s performance is reasonable, given the performance context. The demographic data suggests that the 2020 FFIEC census data median housing value of \$238,978 would not be affordable for most low-income borrowers but might be more affordable for moderate-income borrowers. Using the assumption that a borrower could afford a home that costs approximately three times the borrower’s gross annual income, based on the 2020 FFIEC estimated median family income of \$67,600 for Ravalli County, a person at the highest level of the low-income bracket (\$33,799) would be able to afford a \$101,397 home. A person at the highest level of the moderate-income bracket (\$54,079) would be able to afford a \$162,237 home. As mentioned, the recent average selling price of a home in Ravalli County is \$450,000, and overall, there is a reduced inventory of homes for sale, including affordable homes. In addition, several financial institutions operate in the assessment area and compete for residential real estate loans.

Finally, examiners evaluated the bank’s 2016, 2017, and 2018 HMDA lending activity and determined that the bank’s performance during those years was generally consistent with its performance in 2019 and 2020.

Consumer Lending. The bank’s lending to low- and moderate-income borrowers is excellent. Table 9 below shows the bank’s consumer lending by borrower income level, as well as demographic data.

Table 9					
Distribution of 2020 Other Loan Data Lending By Borrower Income Level					
Assessment Area: Ravalli AA					
Borrower Income Level	Bank Loans				Households by Household Income %
	#	#%	\$(000)	%	
Low	53	39.6	223	18.0	28.2
Moderate	33	24.6	226	18.2	18.4
Middle	16	11.9	191	15.4	16.4
Upper	26	19.4	507	40.9	37.0
Unknown	6	4.5	93	7.5	0.0
Total	134	100.0	1,240	100.0	100.0

*Source: 2020 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.*

The bank originated 39.6% of its consumer loans to low-income borrowers and 24.6% to moderate-income borrowers. The bank’s lending exceeds demographics, which indicate that 28.2% of the households in the assessment area are low income and 18.4% are moderate income. In addition, 33.6% of the consumer loans in the assessment area were for amounts of \$3,000 or less. Smaller dollar loans can help meet the needs of lower-income borrowers.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution and dispersion of the bank’s loans in the Ravalli assessment area is reasonable and does not reveal any unexplained gaps in lending. Most of the bank’s offices are in moderate-income tracts. There are four moderate-income tracts in the assessment area, and three of the bank’s offices in the assessment area are in these tracts. One additional branch is in the middle-income

tract, and one is in the upper-income tract. The bank originated consumer, HMDA, and small business loans in all tracts in the assessment area.

Small Business Lending. The geographic distribution of small business loans is reasonable. Table 10 shows the distribution of the bank’s small business loans by census tract income level.

Table 10					
Distribution of 2020 Small Business Lending By Income Level of Geography					
Assessment Area: Ravalli AA					
Geographic Income Level	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0.0
Moderate	33	43.4	4,770	54.8	48.4
Middle	41	53.9	3,887	44.6	42.6
Upper	2	2.6	51	0.6	9.0
Unknown	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	0	0.0	0.0
Total	76	100.0	8,708	100.0	100.0
<p><i>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.</i></p>					

The bank’s lending in the moderate-income tracts, at 43.4%, is slightly lower than demographics, which indicate that 48.4% of assessment area businesses are in the moderate-income tracts. The bank originated loans in all tracts in the assessment area. The majority of the bank’s small business lending occurred in moderate- and middle-income tracts, which is reasonable as most of the bank’s branches are located in these tracts.

Real Estate Lending. The geographic distribution of the bank’s 2019 and 2020 HMDA loans is reasonable. Table 11 shows the distribution of the bank’s HMDA loans by census-tract income level. The table also includes aggregate lending data for 2019.

Table 11 (1 of 2)											
Distribution of 2019 and 2020 Home Mortgage Lending By Income Level of Geography											
Assessment Area: Ravalli AA											
Geographic Income Level	Bank And Aggregate Loans By Year										Owner Occupied Units %
	2019						2020*				
	Bank		Agg	Bank		Agg	Bank				
	#	#%	#%	\$(000)	\$%	\$%	#	#%	\$(000)	\$%	
Home Purchase Loans											
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Moderate	38	42.2	38.0	11,792	44.0	34.8	32	42.1	9,889	43.6	40.0
Middle	44	48.9	50.6	12,397	46.2	53.2	40	52.6	11,912	52.6	49.9
Upper	8	8.9	11.4	2,620	9.8	12.0	4	5.3	866	3.8	10.1
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	
Total	90	100.0	100.0	26,809	100.0	100.0	76	100.0	22,667	100.0	100.0
Refinance Loans											
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Moderate	22	36.7	33.1	4,237	31.3	32.0	45	34.6	10,602	36.1	40.0
Middle	32	53.3	55.8	7,765	57.3	55.6	68	52.3	14,857	50.6	49.9
Upper	6	10.0	11.0	1,539	11.4	12.4	17	13.1	3,903	13.3	10.1
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	
Total	60	100.0	100.0	13,541	100.0	100.0	130	100.0	29,362	100.0	100.0
Home Improvement Loans											
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Moderate	1	20.0	35.1	62	22.8	40.7	3	30.0	202	27.3	40.0
Middle	3	60.0	50.9	170	62.5	49.0	5	50.0	292	39.5	49.9
Upper	1	20.0	14.0	40	14.7	10.3	2	20.0	245	33.2	10.1
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	
Total	5	100.0	100.0	272	100.0	100.0	10	100.0	739	100.0	100.0
Multifamily Loans											Multi-family Units %
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Moderate	0	0.0	100.0	0	0.0	100.0	0	0.0	0	0.0	72.4
Middle	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	27.6
Upper	1	100.0	0.0	870	100.0	0.0	0	0.0	0	0.0	0.0
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	
Total	1	100.0	100.0	870	100.0	100.0	0	0.0	0	0.0	100.0

Table 11 (1 of 2)											
Distribution of 2019 and 2020 Home Mortgage Lending By Income Level of Geography											
Assessment Area: Ravalli AA											
Total Home Mortgage Loans											Owner Occupied Units %
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Moderate	66	38.6	36.3	16,499	38.6	34.3	81	36.5	20,729	39.0	40.0
Middle	88	51.5	52.6	21,151	49.4	53.8	118	53.2	27,416	51.6	49.9
Upper	17	9.9	11.1	5,129	12.0	11.9	23	10.4	5,014	9.4	10.1
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	
Total	171	100.0	100.0	42,779	100.0	100.0	222	100.0	53,159	100.0	100.0

Source: 2020 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.
*Aggregate data is not currently available.

Table 11 (2 of 2)											
Distribution of 2019 and 2020 Home Mortgage Lending By Income Level of Geography											
Assessment Area: Ravalli AA											
Geographic Income Level	Bank And Aggregate Loans By Year										Owner Occupied Units %
	2019						2020*				
	Bank		Agg	Bank		Agg	Bank				
	#	#%	#%	\$(000)	\$%	\$%	#	#%	\$(000)	\$%	
Other Purpose LOC											
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Moderate	0	0.0	0.0	0	0.0	43.3	0	0.0	0	0.0	40.0
Middle	0	0.0	0.0	0	0.0	52.5	0	0.0	0	0.0	49.9
Upper	0	0.0	0.0	0	0.0	4.2	0	0.0	0	0.0	10.1
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	
Total	0	0.0	0.0	0	0.0	100.0	0	0.0	0	0.0	100.0
Other Purpose Closed/Exempt											
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Moderate	5	33.3	42.9	408	31.7	0.0	1	16.7	36	9.2	40.0
Middle	9	60.0	47.6	819	63.6	0.0	5	83.3	355	90.8	49.9
Upper	1	6.7	9.5	60	4.7	0.0	0	0.0	0	0.0	10.1
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	
Total	15	100.0	100.0	1,287	100.0	0.0	6	100.0	391	100.0	100.0

Table 11 (2 of 2)										
Distribution of 2019 and 2020 Home Mortgage Lending By Income Level of Geography										
Assessment Area: Ravalli AA										
Purpose Not Applicable										
Low	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0.0	36.3	0	0.0	0.0	0	0.0	0	0.0
Middle	0	0.0	58.9	0	0.0	0.0	0	0.0	0	0.0
Upper	0	0.0	4.8	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0
Tract-Unk	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0
Total	0	0.0	100.0	0	0.0	0.0	0	0.0	0	0.0

Source: 2020 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding. *Aggregate data is not currently available.

In 2019, the bank originated 38.6% of its HMDA loans in moderate-income tracts. The bank’s performance is comparable to aggregate lenders, which originated 36.3% of HMDA loans in moderate-income tracts. By loan type, the bank’s home purchase and refinance loans in the moderate-income tracts slightly exceeds aggregate lenders’ performance. In 2020, the bank originated 36.5% of its HMDA loans in moderate-income tracts. According to FFIEC adjusted census data for 2019 and 2020, 40.0% of owner-occupied housing units in the assessment area are in the moderate-income tracts. The bank’s 2019 performance is comparable to demographics and in 2020, the bank’s performance is slightly below demographics. The analysis of the bank’s 2019 and 2020 HMDA loans shows the bank originated HMDA loans in all census tracts. Overall, the bank’s HMDA lending performance in the moderate-income tracts is reasonable, given competition from other lenders which include large regional and national banks. Examiners also evaluated the bank’s 2016, 2017, and 2018 HMDA lending activity and determined that the bank’s performance during those years was generally consistent with that of 2019 and 2020.

Consumer Lending. The geographic distribution of consumer loans is excellent. Table 12 shows the distribution of consumer loans by census tract income level, as well as demographic information.

Table 12					
Distribution of 2020 Other Loan Data Lending By Income Level of Geography					
Assessment Area: Ravalli AA					
Geographic Income Level	Bank Loans				Households %
	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0.0
Moderate	71	53.0	631	50.9	44.7
Middle	55	41.0	558	45.0	46.6
Upper	8	6.0	51	4.1	8.7
Unknown	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	0	0.0	
Total	134	100.0	1,240	100.0	100.0

Source: 2020 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.

The bank originated 53.0% of its consumer loans in the moderate-income tracts. The bank's lending exceeds demographics, which indicates that 44.7% of households in the assessment area are in the moderate-income tracts. The bank originated consumer loans in all census tracts in the assessment area.

COMMUNITY DEVELOPMENT TEST

Overall, the bank's community development activity shows excellent responsiveness to community development needs in the Ravalli assessment area, given competition and the bank's size and market presence. The bank engaged in community development lending and services and made qualified investments in the form of securities and donations.

Community Development Lending. The bank's community development lending in the Ravalli assessment area is excellent. The bank originated eight community development loans totaling \$5.9 million during the evaluation period. The majority of the loans supported revitalization and stabilization of moderate-income tracts; these loans are responsive to the needs of the assessment area, which is composed of 40.0% moderate-income tracts. The remaining loan helped promote economic development.

Qualified Investments. The bank's qualified investments in the Ravalli assessment area are excellent. The bank purchased two security investments totaling \$405,000, which support community services for low- and moderate-income people. The investments financed improvements and construction at school facilities. The bank's support of local schools is particularly responsive to community needs. The bank also held three prior-period bonds totaling \$395,000 that also benefitted area schools; two of those bonds matured during the evaluation period.

The bank's level of donations is also excellent. During the evaluation period, the bank's donations in this assessment area totaled \$103,285. Most of the donations supported community services to low- and moderate-income individuals. The remaining donations supported revitalization and stabilization of moderate-income tracts and the provision of affordable housing.

Community Development Services. Two bank employees provided 11 community development services in the assessment area during the evaluation period, which is adequate. Employees provided financial expertise to two local organizations that focus on economic development and provide community services for low- and moderate-income people.

METROPOLITAN AREA – FULL REVIEW

DESCRIPTION OF THE MISSOULA MSA ASSESSMENT AREA

Bank Information. The bank operates two full-service branches in the assessment area, one each in Missoula and Lolo, and a commercial LPO in Missoula, Montana. The bank has not opened or closed any branches in the assessment area since the previous evaluation; however, the LPO is new since the last examination. The bank operates a full-service ATM at each of the two branches. Both branches also have drive-up facilities with extended weekday hours and Saturday hours. The Lolo office and the LPO are in middle-income tracts, while the Missoula office is in a moderate-income tract.

According to the June 30, 2020, FDIC Deposit Market Share Report, the bank has \$59.3 million in deposits in the Missoula MSA assessment area, representing a market share of 1.2%. The bank is ranked eighth out of 12 FDIC-insured institutions with offices in the assessment area. The bank's deposits in this assessment area represent 13.4% of its total deposits. The bank operates in a highly competitive market that includes other community banks, regional banks, large national banks, and credit unions.

Assessment Area. The Missoula MSA assessment area is Missoula County, which comprises the Missoula, MT MSA – 33540. The Missoula MSA assessment area lies north of Ravalli County and is adjacent to the Ravalli assessment area. A small portion of the Flathead Indian Reservation is located in this assessment area. The assessment area has not changed since the previous evaluation. However, the income classifications of some census tracts have changed. At the previous evaluation, the assessment area had four moderate-, 11 middle-, and five upper-income census tracts. The assessment area now consists of one low-, three moderate-, 13 middle-, and three upper-income census tracts. There are no distressed and/or underserved tracts in the assessment area.

Table 13 shows the demographic characteristics of the Missoula MSA assessment area.

Table 13								
Missoula MSA Assessment Area								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	1	5.0	187	0.7	24	12.8	5,614	21.1
Moderate-income	3	15.0	3,787	14.2	547	14.4	4,845	18.2
Middle-income	13	65.0	17,416	65.3	1,398	8.0	5,559	20.8
Upper-income	3	15.0	5,274	19.8	346	6.6	10,646	39.9
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	20	100.0	26,664	100.0	2,315	8.7	26,664	100.0
	Housing	Housing Types by Tract						
	Units by Tract	Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	1,458	125	0.5	8.6	1,145	78.5	188	12.9
Moderate-income	9,623	3,443	12.6	35.8	5,762	59.9	418	4.3
Middle-income	31,946	18,337	67.3	57.4	10,039	31.4	3,570	11.2
Upper-income	8,029	5,323	19.5	66.3	2,450	30.5	256	3.2
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	51,056	27,228	100.0	53.3	19,396	38.0	4,432	8.7
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	824	11.1	737	10.7	77	15.1	10	18.5
Moderate-income	1,404	18.9	1,263	18.4	133	26.0	8	14.8
Middle-income	4,218	56.8	3,915	57.1	275	53.8	28	51.9
Upper-income	977	13.2	943	13.8	26	5.1	8	14.8
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	7,423	100.0	6,858	100.0	511	100.0	54	100.0
	Percentage of Total Businesses:			92.4		6.9		0.7

Table 13 Missoula MSA Assessment Area								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	1	5.0	187	0.7	24	12.8	5,614	21.1
Moderate-income	3	15.0	3,787	14.2	547	14.4	4,845	18.2
Middle-income	13	65.0	17,416	65.3	1,398	8.0	5,559	20.8
Upper-income	3	15.0	5,274	19.8	346	6.6	10,646	39.9
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	20	100.0	26,664	100.0	2,315	8.7	26,664	100.0
	Total Farms by Tract		Farms by Tract & Revenue Size					
	#	%	Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	5	2.4	5	2.5	0	0.0	0	0.0
Moderate-income	20	9.6	19	9.3	1	20.0	0	0.0
Middle-income	162	77.5	158	77.5	4	80.0	0	0.0
Upper-income	22	10.5	22	10.8	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	209	100.0	204	100.0	5	100.0	0	0.0
	Percentage of Total Farms:			97.6		2.4		0.0
2020 FFIEC Census Data 2020 Dun & Bradstreet Data								

Income. For purposes of classifying borrower income, this evaluation uses the FFIEC estimated median family income for the Missoula, MT MSA – 33540, for the year of loan origination. This figure was \$61,600 for 2016, \$71,200 for 2017, \$70,400 for 2018, \$73,300 for 2019, and \$84,300 for 2020. For purposes of classifying census tracts by income level, the evaluation uses the FFIEC adjusted census data median family income for the Missoula, MT MSA, which was \$58,302 for 2016, and \$65,463 for 2017, 2018, 2019, and 2020.

Population Characteristics. The population of this assessment area is 111,966. The largest segment of the population, 52.5%, is 25 to 64 years of age. The remaining population by age is as follows: 15.0% are 18 to 24 years of age, 19.6% are 17 years of age and younger, and 13.0% are 65 and over. Missoula is the largest city in the county and also the county seat.

Overall, the assessment area and the state’s population grew slightly at a comparable rate. A community contact indicated the people continue to move to the Missoula area from out of state for the quality of life. Table 14 shows the population change from the 2010 census to the 2015 ACS survey.

Table 14 Total Population			
Area	2010 Population	2015 Population	% Change
Missoula County AA 2020	109,299	111,966	2.4%
Montana	989,415	1,014,699	2.6%
<i>Source: 2010 U.S. Census Bureau Decennial Census 2011 - 2015 U.S. Census Bureau American Community Survey</i>			

Of the 46,624 households in the assessment area, 24.3% are low income and 16.2% are moderate income. The percentages of low- and moderate-income households in the assessment area are consistent with the statewide percentages, at 23.8% and 16.6%, respectively. In addition, 16.6% of the households in the assessment area have incomes below the poverty level, which is slightly higher than the statewide percentage of 14.5%.

Economy. For much of the evaluation period, the economy was generally stable with some growth. Toward the later part of the period, the economy faced challenges related to the pandemic. A community contact indicated that the primary industries are education, service, entertainment, health care, tourism, and recreation, but overall, the economy is quite diverse. The technology sector is also emerging. The tourism industry has been doing well even during the pandemic. A community contact stated that the medical and service sectors were affected negatively by the pandemic but both sectors seem to be recovering.

The primary employers include local hospitals and medical facilities, state and federal government, school districts, and the University of Montana. During the pandemic, some employers laid off workers. A contact stated that the general population in the area is underemployed based on education level.

Table 15 shows the unemployment rates for the Missoula MSA assessment area and the state for a recent three-year period. The unemployment rate in the assessment area fluctuated slightly during this period and was slightly higher than the statewide rate for 2020 but lower during the preceding two years.

Table 15 Unemployment Rates			
Area	2018	2019	2020
Missoula MSA AA 2020	3.4%	3.3%	6.3%
Montana	3.8%	3.6%	5.9%
<i>Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics</i>			

Housing. According to community contacts, affordable housing for low- and moderate-income people is a concern in the assessment area. In general, home values in the area have been increasing, and there is a shortage of housing stock. The housing stock that does exist is relatively old; however, that does not necessarily mean it is modestly priced. Community contacts and bank management stated that the average home values in the area can range from \$400,000 to \$500,000. Rental prices also have been going up, with a contact saying that there is a concern that low- and moderate-income individuals could be priced out of the market. A contact stated that 50.0% of Missoula residents are renters because of the university’s student population as well as some university staff who rent.

According to 2020 FFIEC adjusted census data, the Missoula MSA assessment area has 51,056 housing units: 53.3% are owner occupied, 38.0% are rentals, and 8.7% are vacant. The median age of the housing

stock is 43 years, which is higher than the state median of 39 years. The median housing value for the assessment area is \$239,712 and the affordability ratio is 19.3, compared to \$193,500 and an affordability ratio of 24.4 for the state. The affordability ratio is the median household income divided by the median housing value. A higher ratio indicates greater affordability. The ratio suggests that, overall, housing is slightly less affordable in the assessment area than in other areas of the state

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA IN THE MISSOULA MSA ASSESSMENT AREA

Overall, the bank’s Lending Test performance in the Missoula MSA assessment area is reasonable. The bank’s Community Development Test performance demonstrates excellent responsiveness to community development needs in the Missoula MSA area.

LENDING TEST

Overall, the bank’s lending to businesses of different sizes and to borrowers of different income levels is excellent, and the geographic distribution of loans reflects a reasonable dispersion throughout the assessment area and does not reveal unexplained gaps in lending.

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

Small Business Lending. The bank’s small business lending in the assessment area is excellent. Table 16 shows the bank’s small business lending.

Table 16					
Distribution of 2020 Small Business Lending By Revenue Size of Businesses					
Assessment Area: Missoula AA					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	22	91.7	3,134	82.4	92.4
Over \$1 Million	2	8.3	669	17.6	6.9
Revenue Unknown	0	0.0	0	0.0	0.7
Total	24	100.0	3,802	100.0	100.0
By Loan Size					
\$100,000 or Less	16	66.7	439	11.5	
\$100,001 - \$250,000	1	4.2	102	2.7	
\$250,001 - \$1 Million	7	29.2	3,262	85.8	
Total	24	100.0	3,802	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	16	72.7	439	14.0	
\$100,001 - \$250,000	1	4.5	102	3.3	
\$250,001 - \$1 Million	5	22.7	2,593	82.7	
Total	22	100.0	3,134	100.0	

Source: 2020 FFIEC Census Data

The bank originated 91.7% of its small business loans to small businesses. The bank’s lending is comparable to demographics, which indicate that 92.4% of businesses in the assessment area are small businesses. Overall, 66.7% of the small business loans were for \$100,000 or less, which indicates the bank’s willingness to serve the credit needs of smaller entities.

Of the 24 loans in the small business analysis for the Missoula MSA assessment area, four of those loans are PPP loans. The bank’s active participation in this program further demonstrates the bank’s commitment to serving the small businesses in its assessment areas.

HMDA Lending. The bank’s HMDA lending to low- and moderate-income borrowers is reasonable. Table 17 shows the bank’s HMDA lending by borrower income levels for 2019 and 2020. The table also includes the same information for aggregate lenders in 2019 as well as demographic data.

Table 17											
Distribution of 2019 and 2020 Home Mortgage Lending By Borrower Income Level											
Assessment Area: Missoula AA											
Borrower Income Level	Bank And Aggregate Loans By Year										Families by Family Income %
	2019						2020*				
	Bank		Agg	Bank		Agg	Bank				
	#	#%	#%	\$(000)	\$%	\$%	#	#%	\$(000)	\$%	
Low	3	4.8	4.7	370	2.5	2.3	3	4.6	516	2.2	21.1
Moderate	10	16.1	16.6	1,817	12.0	12.1	7	10.8	1,251	5.3	18.2
Middle	17	27.4	23.3	3,525	23.3	20.4	19	29.2	4,059	17.2	20.8
Upper	28	45.2	43.3	8,506	56.3	48.4	24	36.9	7,766	32.9	39.9
Unknown	4	6.5	12.1	882	5.8	16.8	12	18.5	9,992	42.4	0.0
Total	62	100.0	100.0	15,100	100.0	100.0	65	100.0	23,584	100.0	100.0

Source: 2020 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.
*Aggregate data is not currently available.

In 2019, the bank originated 4.8% of its HMDA loans to low-income borrowers and 16.1% to moderate-income borrowers. The bank’s lending to low- and moderate-income borrowers is comparable to aggregate lenders, at 4.7% and 16.6%, respectively. The bank’s lending to low-income borrowers is below demographics, and its lending to moderate-income borrowers is comparable to demographics. In 2020, the bank’s lending to low- and moderate-income borrowers at 4.6% and 10.8% is below demographics of 21.1% and 18.2%, respectively.

Overall, the bank’s performance is reasonable based on the performance context. The demographic data suggests that the 2020 FFIEC census data median housing value of \$239,712 would not be affordable for many low-income borrowers but might be more affordable for moderate-income borrowers. Using the assumptions that a borrower could afford a home that costs approximately three times gross annual income, based on the 2020 FFIEC estimated median family income for Missoula County of \$84,300, a person at the highest level of the low-income bracket (\$42,149) would be able to afford a \$126,447 home. A person in the highest level of the moderate-income bracket (\$67,439) would be able to afford a \$202,317 home. Lastly, numerous financial institutions operate in the assessment area, and competition

for residential real estate loans is high. The bank ranked 17th out of 162 HMDA reporters in 2019. The top three HMDA reporters in 2019 were a regional credit union and two large regional banks.

Finally, examiners evaluated the bank’s 2016, 2017, and 2018 HMDA lending activity and determined that the bank’s performance was generally consistent with its performance in 2019 and 2020.

Consumer Lending. The bank’s consumer lending to low- and moderate-income borrowers is excellent. Table 18 shows the bank’s consumer lending by borrower income levels, as well as demographic data.

Table 18					
Distribution of 2020 Other Loan Data Lending By Borrower Income Level					
Assessment Area: Missoula AA					
Borrower Income Level	Bank Loans				Households by Household Income %
	#	#%	\$(000)	%	
Low	9	37.5	53	19.2	24.3
Moderate	7	29.2	62	22.5	16.2
Middle	5	20.8	84	30.4	17.0
Upper	2	8.3	75	27.2	42.5
Unknown	1	4.2	1	0.4	1.5
Total	24	100.0	276	100.0	100.0

*Source: 2020 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.*

The bank originated 37.5% of its consumer loans to low-income borrowers, which significantly exceeds the percentage of low-income households (24.3%) in the assessment area. The bank originated 29.2% of its consumer loans to moderate-income borrowers, which is also significantly above the percentage of moderate-income households (16.2%) in the assessment area. In addition, six of the 24 consumer loans in the assessment area were for amounts of \$3,000 or less (25.0%). Smaller dollar loans can help meet the needs of lower-income borrowers.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank’s loans in the Missoula assessment area is reasonable and does not reveal any unexplained gaps in lending. The assessment area includes 20 census tracts, including one low-income tract and three moderate-income tracts. These low-and moderate-income tracts are in or near downtown Missoula. The Missoula assessment area is geographically large, and the bank originates a majority of its loans in close proximity to where the branches are located. The bank made loans in all tracts in the assessment area.

Small Business Lending. The geographic distribution of small business loans is reasonable. Table 19 shows the bank’s small business lending by census tract income level.

Table 19					
Distribution of 2020 Small Business Lending By Income Level of Geography					
Assessment Area: Missoula AA					
Geographic Income Level	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
Low	1	4.2	943	24.8	11.1
Moderate	7	29.2	872	22.9	18.9
Middle	13	54.2	1,953	51.4	56.8
Upper	3	12.5	35	0.9	13.2
Unknown	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	0	0.0	
Total	24	100.0	3,802	100.0	100.0

*Source: 2020 FFIEC Census Data
2020 Dun & Bradstreet Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.*

The bank originated 4.2% of small business loans in the low-income census tract and 29.2% in the moderate-income census tracts. The bank’s lending is above demographics for moderate-income tracts but below demographics for low-income tracts. The demographics indicate that 11.1% and 18.9% of businesses in the assessment area are in the low- and moderate-income tracts, respectively. Even though the bank’s small business lending in the low-income census tract is lower than demographics, the bank’s performance is reasonable, because there is strong competition for commercial loans in downtown Missoula where the tract is located. The bank originated the majority (54.2%) of small business loans in middle-income tracts, where 56.8% of the businesses in the assessment area are located. The bank did not make small business loans in all of the tracts in the assessment area, including one moderate-income tract, which is reasonable given the competitive nature of the assessment area and the bank’s footprint in this market.

HMDA Lending. The bank’s geographic distribution of HMDA loans is reasonable. Table 20 shows the distribution of the bank’s 2019 and 2020 HMDA loans by census tract income. The table also includes the same information for aggregate lenders in 2019, as well as demographic data.

Table 20											
Distribution of 2019 and 2020 Home Mortgage Lending By Income Level of Geography											
Assessment Area: Missoula AA											
Geographic Income Level	Bank And Aggregate Loans By Year										Owner Occupied Units %
	2019						2020*				
	Bank		Agg	Bank		Agg	Bank				
	#	#%	#%	\$(000)	\$%	\$%	#	#%	\$(000)	\$%	
Low	0	0.0	0.8	0	0.0	1.2	1	1.5	153	0.6	0.5
Moderate	8	12.9	14.5	1,531	10.1	11.5	6	9.2	2,446	10.4	12.6
Middle	46	74.2	65.2	11,699	77.5	65.4	45	69.2	17,735	75.2	67.3
Upper	8	12.9	19.5	1,870	12.4	21.9	13	20.0	3,250	13.8	19.5
Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	0.0	0	0.0	0.0	0	0.0	0	0.0	0.0
Total	62	100.0	100.0	15,100	100.0	100.0	65	100.0	23,584	100.0	100.0

*Source: 2020 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.
Aggregate data is not currently available.

In 2019, the bank originated 12.9% of HMDA loans in the moderate-income tracts, which is comparable to aggregate lenders, at 14.5 %. The bank did not originate loans in the low-income tracts in 2019; however, only 0.8% of the aggregate lender loans were in the low-income tract. The 2019 bank’s lending is comparable to demographics for low- and moderate-income tracts. In 2020, the bank originated 1.5% of HMDA loans in the low-income tract, which is above demographics (0.5%), and 9.2% in the moderate-income tracts, which is below demographics (12.6%). The analysis of the bank’s 2019 and 2020 HMDA loans shows the bank originated HMDA loans in all census tracts. Overall, the bank’s HMDA lending performance in the low- and moderate-income tracts is reasonable. In this assessment area, the bank faces competition from numerous lenders. In addition, the demographics of the tracts show that there are low percentages of owner-occupied units in the low- and moderate-income tracts, which limits lending activities.

Finally, examiners evaluated the bank’s 2016, 2017, and 2018 HMDA lending activity and determined that the bank’s performance was generally consistent with its performance in 2019 and 2020.

Consumer Lending. The geographic distribution of consumer loans is reasonable. Table 21 shows the distribution of consumer loans by census tract income level, as well as demographic data.

Table 21					
Distribution of 2020 Other Loan Data Lending By Income Level of Geography					
Assessment Area: Missoula AA					
Geographic Income Level	Bank Loans				Households %
	#	#%	\$(000)	\$%	
Low	2	8.3	25	9.1	2.7
Moderate	4	16.7	25	9.1	19.7
Middle	17	70.8	169	61.2	60.9
Upper	1	4.2	56	20.3	16.7
Unknown	0	0.0	0	0.0	0.0
Tract Unknown	0	0.0	1	0.4	
Total	24	100.0	276	100.0	100.0

*Source: 2020 FFIEC Census Data
2011-2015 U.S. Census Bureau: American Community Survey
Note: Percentages may not total 100.0 percent due to rounding.*

The bank originated 8.3% of its consumer loans in the low-income tract, which exceeds demographics that show 2.7% of households are in the low-income tract. The bank originated 16.7% of its consumer loans in the moderate-income tracts, which is generally comparable to the percentage of households in the moderate-income tracts (19.7%). The bank did not originate consumer loans in some middle- and upper-income census tracts in the assessment area, which is reasonable given the competitive banking environment and the bank’s footprint in this market.

COMMUNITY DEVELOPMENT TEST

Overall, the bank’s community development activity shows excellent responsiveness to community development needs in the Missoula assessment area. The bank made qualified investments in the form of donations and provided community development services. Given the community development opportunities and the strong competition, the bank’s community development performance is excellent.

Community Development Loans. The bank’s community development lending is excellent. During the evaluation period, the bank originated five community development loans totaling \$6.0 million in this assessment area. Four loans helped to revitalize and stabilize moderate-income tracts by financing the needs of local businesses. The remaining loan supported economic development. The bank faces strong competition from area lenders for qualified community development loans.

Qualified Investments The bank’s level of qualified investments and donations in the Missoula assessment area is excellent. During the evaluation period, the bank did not make new qualified investments or hold prior-period investments; however, the bank made donations totaling \$32,360. The bank’s donations helped support community services to low- and moderate-income people and included large donations that supported a local food pantry.

Community Development Services. The bank’s level of community development services is adequate. During the evaluation period, one banker provided two community development services to an organization that helped revitalize and stabilize a moderate-income area.

NONMETROPOLITAN AREA – LIMITED REVIEW

DESCRIPTION OF THE FLATHEAD ASSESSMENT AREA

Examiners conducted a limited-scope review of the bank's Flathead assessment area and determined the bank's lending performance is consistent with the bank's performance in the full-scope assessment areas. Examiners determined the bank's community development performance is below the performance of the full-scope assessment areas due to lack of community development lending and services. Examiners analyzed the bank's HMDA loans and reviewed the bank's community development activities in this assessment area to make this determination. Examiners did not review small business and consumer loans due to very limited volume. Since this is a new assessment area, lending and community development activities were generally limited in the assessment area.

The bank's activity in this assessment area accounts for 1.0% of total deposits and 3.0% of total loans. According to the June 30, 2020, FDIC Deposit Market Share Report, the bank ranks 12th out of 12 FDIC-insured institutions with offices in this assessment area, with only 0.2% of the market.

Flathead is a new assessment area since the previous evaluation. The bank opened the Kalispell office (in upper-income census tract 8.00) in August 2018. The assessment area consists of 12 of the 19 tracts in Flathead County (one moderate-income, nine middle-income, and two upper-income tracts). The southern area of the assessment area includes a small portion of the Flathead Indian Reservation. There are no distressed and/or underserved tracts.

NONMETROPOLITAN AREA – LIMITED REVIEW

DESCRIPTION OF THE LEWIS AND CLARK ASSESSMENT AREA

Examiners conducted a limited-scope review of the bank's Lewis and Clark assessment area and determined the bank's lending performance is consistent with the bank's performance in the full-scope assessment areas. Examiners determined the bank's community development performance is below the performance of the full-scope assessment areas, due to limited investments, which includes donations, and lack of community development services. Examiners analyzed the bank's HMDA and small business loans, and reviewed the bank's community development activities in this assessment area to make this determination. Examiners did not review consumer loans due to very limited volume. Since this is a new assessment area, lending and community development activities were generally limited in the assessment area.

The bank's activity in this assessment area accounts for 1.0% of its total deposits and 3.0% of total loans. According to the June 30, 2020, FDIC Deposit Market Share Report, the bank ranks 11th out of 12 FDIC-insured institutions with offices in this assessment area, with only 0.6% of the market.

Lewis and Clark is a new assessment area since the previous evaluation. The bank opened the Helena branch (in upper-income census tract 5.02) in October 2017. The assessment area includes 11 of the 14 census tracts in Lewis and Clark County (seven middle-income and four upper-income). There are no distressed and/or underserved tracts.

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: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) 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; (4) activities that revitalize or stabilize low- or moderate-income census tracts, designated disaster areas, or distressed or underserved nonmetropolitan middle-income census tracts; or (5) Neighborhood Stabilization Program (NSP)-eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and census tracts.

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.

Distressed nonmetropolitan middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20.0% or more, or (3) a population loss of 10.0% or more between the previous and most recent decennial census or a net migration loss of 5.0% or more over the 5-year period preceding the most recent census.

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

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

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

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

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

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

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

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

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical 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 MSA. 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 MSA, 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 instructions for preparation of 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.

Underserved middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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.)