

GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of First State Bank of Froid, Froid, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of December 10, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

Several major factors contribute to the bank's satisfactory CRA rating. First, the bank has continued to maintain a reasonable loan-to-deposit ratio since the previous evaluation. Second, the bank has made a substantial portion of its loans to residents of its assessment area. Third, the bank has originated a reasonable number of loans to borrowers of all income levels residing in its assessment area. Finally, the bank has a reasonable distribution of loans in geographies of different income levels.

The following table shows the performance level of the First State Bank of Froid, Froid, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST STATE BANK OF FROID FROID, MONTANA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the previous evaluation.		

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of its assessment area effectively. At its previous CRA evaluation, the bank was rated satisfactory in helping to meet the credit needs of its community. The bank operates a full-service office in Froid, Montana. According to the September 30, 1996, Report of Condition ("ROC"), the bank's total assets are approximately \$12.4 million. Since September 30, 1995, the bank's asset, deposit, and loan levels have reflected the seasonal fluctuations of the area's agricultural economy.

The bank offers a variety of products that serve the credit needs of area residents, including agricultural, consumer, small business, community development, and government-guaranteed loans. In addition, the bank provides residential real estate loans for purchasing, refinancing, and improving homes. The bank offers government-guaranteed loan programs sponsored by the Small Business Administration, Bureau of Indian Affairs, Farm Service Agency, Department of Veterans Affairs, and the Federal Housing Administration.

The September 30, 1996, ROC shows that the bank is primarily an agricultural lender with approximately 62% of its loan portfolio composed of agriculture-related loans. The balance of the bank's loan portfolio consists of approximately 17% consumer real estate, 11% consumer, and 10% commercial loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of loans by assessment area residents.

DESCRIPTION OF ASSESSMENT AREA FOR FIRST STATE BANK OF FROID, FROID, MONTANA

The bank has defined its assessment area as Roosevelt and Sheridan counties in northeastern Montana. The assessment area contains block numbering areas ("BNA") 9501, 9502, 9503, 9510, 9511, and 9512. BNAs 9503 and 9511 are designated moderate income. The remaining BNAs within the assessment area are classified middle income. The bank's office is located in BNA 9510.

Froid is located in the northeastern corner of Montana, about 50 miles south of the Canadian border and 25 miles west of the North Dakota border. The population of Froid is less than 200. Other communities within the assessment area include Culbertson, Wolf Point, and Poplar, Montana. According to 1990 census data, the population of the assessment area is 15,731. The bank's assessment area also includes a significant portion of the Fort Peck Indian Reservation ("Reservation"). The population of the Sioux and Assiniboine Tribes is approximately 10,000; approximately 6,000 tribe members reside on the Reservation.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Pursuant to CRA's definitions, low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines middle-income individuals as persons with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes of 120% or more of the statewide nonmetropolitan median family income are classified as upper-income persons. BNAs are classified using similar categories based on the level of the median family income in the geography. According to the 1995 updated census data, the statewide nonmetropolitan median family income in Montana is \$32,200.

According to 1990 census data, the assessment area's median family income is \$22,775, while its median household income is \$19,962. There are 4,111 families and 5,567 households in the assessment area. Approximately 19% of

the families and 21% of the households in the assessment area have incomes below the poverty level. The distribution of family and household incomes for the assessment area is summarized in the following table.

ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Households Compared to Median Family Income	27.6%	17.4%	19.6%	35.4%
Families Compared to Median Family Income	27.4%	20.3%	21.3%	31.0%

Examiners contacted local agricultural extension service and tribal representatives familiar with the assessment area as part of the bank's CRA evaluation. Information obtained from these contacts was used to evaluate the bank's CRA performance.

According to bank management and community contacts, the economy in the bank's assessment area is agriculture-based and is considered generally stable. The main occupations are cattle ranching and farming. The cattle market is down because of poor beef prices. The yields and prices for small grain crops, such as spring wheat and durum, have improved in the last few years and provided some economic relief for the area. Farms that have fared well are those that have diversified to both cattle and crop production.

According to the contacts, individually owned farms in the area are increasing in size as a result of the consolidation of farms that have gone out of production. The aging population and the dispersion of young people who leave the area in search of other occupations are the primary reasons many farms are offered for sale. Prices for crop- and pastureland have been stable.

In addition, there has been a resurgence of oil prospecting in the region. In the 1980s, the local economy included some oil production. One community contact stated there were oil survey crews in the area during the summer of 1996. Although some pockets of oil were found between Froid and Bainville, no indication has been given of future drilling plans.

The Reservation occupies a sizable portion of the bank's assessment area, encompassing most of Roosevelt County and a small corner of southwestern Sheridan County. The Reservation has approximately 6,000 residents.

According to a tribal contact, approximately 58% of the Reservation's eligible work force is unemployed. As a result of a major loss of government contract work, the Reservation is working to develop a fish farming business. In addition, sugar beet and potato farming are being considered to provide employment and income for the Reservation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs in its assessment area is satisfactory. Much of the analysis on the following pages was based on a statistical sample of 62 agricultural and 65 consumer loans originated since the last evaluation. The following criteria were analyzed to determine this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. The bank's quarterly loan-to-deposit ratio has fluctuated between 45% and 49% since the previous evaluation. As previously mentioned, a substantial majority of the bank's loan portfolio is concentrated in agricultural loans. The fluctuation in quarterly loan-to-deposit ratios is due to the seasonal variation in demand for agricultural credit. Based on the data for the five calendar quarters since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 47%. The following chart summarizes the bank's net loan-to-deposit ratio and its components.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO-DEPOSIT RATIO
September 30, 1996	\$5,392	\$10,823	49.8%
June 30, 1996	\$5,479	\$11,339	48.3%
March 31, 1996	\$5,234	\$11,682	44.8%
December 31, 1995	\$5,217	\$11,568	45.1%
September 30, 1995	\$5,523	\$11,239	49.1%

According to the June 30, 1996, Uniform Bank Performance Report, the bank's lending level (as measured by the loan-to-deposit ratio) is in the 22nd percentile. However, when compared to its local competitors, the bank's lending is similar to the quarterly average ratios of three competitors. Based on quarterly ROC data since September 30, 1995, the following table identifies asset size and quarterly average loan-to-deposit ratios for the bank and three competitors. As shown in the table, although the bank is the smallest institution listed, its loan-to-deposit ratio is the second highest among these institutions.

BANK	TOTAL ASSETS September 30, 1996 (In thousands)	QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIO
Subject Bank	\$12,364	47.44%
Competitor A	\$38,904	45.83%
Competitor B	\$22,288	54.98%
Competitor C	\$39,081	46.82%

According to bank management, the bank's loan-to-deposit ratio is lower than its national peer group due to local conditions. Management indicated that the community has a significant retired population that does not demand much credit for consumer and real estate needs. In addition, management said that strong competition from financial institutions as far away as Sidney, Montana, and Williston, North Dakota, also has an effect on the bank's lending activity. The rural nature of the assessment area makes it common practice for local residents to conduct much of their financial, service, and retail

business at these regional trade centers.

Another significant factor affecting demand for credit is the unemployment rate on the Reservation. According to a tribal contact, unemployment on the Reservation is about 58%. Because nearly 40% of the assessment area's population are tribal members residing on the Reservation, the high unemployment rate has a significant negative impact on credit demand.

Overall, the bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. This conclusion is based on the bank's lending performance in relation to its local competitors, the high unemployment rate on the Reservation and, as indicated by community contacts, the fact that there are no unmet credit needs in the assessment area.

LENDING IN THE ASSESSMENT AREA

A review of a statistical sample of the loans originated by the bank in the past year reveals the bank made a substantial majority of its loans inside its assessment area. The following table shows the percentages for number and dollar volume of major loan product lines inside the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Major Loan Product Lines	Total Number of Loans	Total Amount of Loans
Consumer	92%	94%
Agricultural	98%	99%

As noted in the table, almost all of the bank's sampled loans are within the assessment area. The extraordinary concentration of lending within the assessment area exceeds the standards for satisfactory performance.

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

The bank's level of lending to individuals of different incomes and to farms of different sizes meets the standards for satisfactory performance. As discussed, CRA classifies income levels into four categories: low, moderate, middle, and upper. According to 1990 census data, the median household and family incomes for the bank's assessment area are \$19,962 and \$22,775, respectively. Both figures are below the statewide nonmetropolitan household and family incomes for Montana. The nonmetropolitan household and family incomes for Montana are \$22,345 and \$27,352, respectively. A major reason for the disparity between assessment area and statewide income levels is the influence of the Reservation. As previously mentioned, approximately 58% of the Reservation's work force is unemployed.

As previously mentioned, the performance evaluation was based on a statistical sample of 62 agricultural and 65 consumer loans. However, income data was only available from 30% of the consumer loans in the sample. The scarcity of income data made an analysis of income distribution for consumer loan borrowers meaningless. Because of that fact, the analysis in this section of the evaluation is based on the agricultural loan sample.

Agricultural loans are the bank's primary focus. As previously mentioned, nearly two-thirds of the loan portfolio falls in this category. The definition of a small farm or business is one that has gross annual revenues of \$1 million or less. As the following table illustrates, all of the bank's

agricultural borrowers in the CRA sample met the definition.

DISTRIBUTION OF LOANS BY BORROWER REVENUES		
Loan Type	Annual Revenue ≤ \$1 million	Annual Revenue > \$1 million
Agricultural	100%	0%

In addition, all of the loans for agricultural borrowers were for amounts less than or equal to \$100,000.

Overall, the bank's lending to borrowers of different income levels and to businesses of different sizes meets the standard for satisfactory performance.

This conclusion is based on the available data for small farm lending. The lack of income data for consumer loans did not allow analysis of that loan category and precluded a higher rating in this category.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's loans are distributed adequately throughout the assessment area and meet the standard for satisfactory performance. As discussed previously, the bank's assessment area includes two moderate-income BNAs, located west and north of the bank. One of the BNAs (9511) is located on the Reservation. The remaining BNAs are all designated as middle income. The bank's sole office is located in Froid, which is within the boundaries of a middle-income BNA. The following table shows the distribution of the bank's consumer and agricultural loans in moderate- and middle-income BNAs.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL*		
Loan Type	Moderate-Income BNA	Middle-Income BNA
Consumer		
Total Number of Loans	30%	70%
Total Amount of Loans	41%	59%
Agricultural		
Total Number of Loans	33%	67%
Total Amount of Loans	34%	66%
*The bank's assessment area does not include any low- or upper-income BNAs.		

According to 1990 census data, approximately 41% of the assessment area's population resides in the moderate-income BNAs and 59% in the middle-income BNAs. As the table indicates, 30% of the consumer loans and 33% of the agricultural loans are made to borrowers in moderate-income geographies. The table also indicates that 70% of consumer loans and 67% of agricultural loans are made in the middle-income BNAs.

Although the lending level is lower in the moderate-income geographies than one might expect based solely on the population numbers, the lending distribution appears reasonable on closer inspection. First, 85% of the population of the moderate-income BNAs resides in the BNA located on the

Reservation where, as previously mentioned, the unemployment level is approximately 58%. In addition, 25% of the households in these geographies have incomes below the poverty level. Both of these factors would tend to limit the bank's lending opportunities in these BNAs. Second, according to the tribal contact, most of the tribal members reside in the southern part of the Reservation and tend to use competing banks located closer to their homes. Given these factors, the lending distribution meets the standards for satisfactory performance.

Based on the preceding discussion of the demographics of the assessment area and the bank's lending activity, the distribution of the bank's loans among geographies of different income levels is reasonable and meets the standards for satisfactory performance.

GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair housing and fair lending laws and regulations. Isolated violations involving technical aspects of the Equal Credit Opportunity Act's Regulation B were noted during the evaluation. In addition, the bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

December 10, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank of Froid
Name of Depository Institution

093004100000
Identification Number of Institution

Froid, Montana
Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.