

PUBLIC DISCLOSURE

August 24, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Ravalli County Bank
224 Pinckney Street
Hamilton, Montana 59840
RSSD 604556

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

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

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

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

The bank's CRA performance was evaluated using the Small Bank CRA Evaluation Procedures. Based on the bank's asset size and financial condition, the bank effectively meets the credit needs of the residents and businesses in its assessment area. Several factors support the bank's outstanding rating.

- The bank's lending to borrowers of different income levels and to businesses of different sizes is very good.
- The geographic distribution and dispersion of loans in the bank's assessment area is good.
- A review of the bank's net loan-to-deposit ratio indicates a good level of lending.
- A majority of the bank's loans were made to borrowers residing in its assessment area.
- The bank's level of community development lending, services, and investments further demonstrates its commitment to assist low- and moderate-income residents and small businesses in the assessment area.

SCOPE OF EVALUATION

This evaluation is based on a statistical sample of 79 consumer and 59 small business loans originated between January 1, 2009, and June 30, 2009. The evaluation is also based on a statistical sample of 65 residential real estate loans originated between July 1, 2008, and June 30, 2009. The sample period for residential real estate loans is longer than the sample period for consumer and small business loans in order to meet minimum sample size requirements. Consumer, residential real estate, and commercial loans represent the bank's major product lines by either total number or total dollar amount, as illustrated in Table 1.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>% of Total Number</i>	<i>Total Loan Dollars</i>	<i>% of Total Dollar</i>
Consumer	308	43.3	2,139,962	4.5
Home Equity Line of Credit	9	1.3	568,000	1.2
Residential Real Estate	116	16.3	18,190,192	38.6
Commercial	233	32.8	19,342,858	41.0
Agricultural	22	3.1	2,328,657	4.9
Bare Land	23	3.2	4,610,464	9.8
Total	711	100.0	47,180,133	100.0

The following criteria were analyzed to determine the bank's CRA rating:

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

In assigning the rating, examiners placed the greatest weight on lending to borrowers of different income levels and to businesses of different sizes followed by geographic distribution of loans. The remaining criteria received equal weighting. Consumer, small business, and residential real estate lending were weighted equally.

At the option of the bank and in accordance with the Small Bank CRA Evaluation Procedures, examiners reviewed the bank's community development loans, investments, and services. These items enhance the overall rating.

DESCRIPTION OF INSTITUTION

The bank effectively meets the credit needs of its assessment area given its asset size, location, and credit products. The bank received an outstanding rating at the conclusion of the previous CRA evaluation dated June 21, 2004.

Offices. The bank's main office is located in Hamilton, Montana. The bank also operates one full-service and three limited-service branch offices. The full-service branch is located in Corvallis, Montana. Two limited-service branches are located inside Super 1 Foods stores in Hamilton and Stevensville, Montana. Finally, a drive-up facility is also located in Hamilton. The bank does not originate loans at any of the limited-service facilities or the drive-up facility. The bank has not closed any facilities since the previous evaluation. Table 2 details each bank office's location and hours.

<i>Office</i>	<i>Location</i>	<i>Days Open</i>	<i>Lobby Hours</i>	<i>Drive-Up Hours</i>
Main Bank	224 West Pinckney Street Hamilton, MT	Monday-Friday	9:00 a.m. to 5:00 p.m.	8:30 a.m. to 5:00 p.m.
South Drive-Up	955 South First Street Hamilton, MT	Monday-Thursday	None	8:15 a.m. to 5:30 p.m.
		Friday	None	8:15 a.m. to 6:00 p.m.
		Saturday	None	9:00 a.m. to 1:00 p.m.
Blodgett View Super 1 Foods Branch	1131 North First Street Hamilton, MT	Monday-Friday	9:00 a.m. to 7:00 p.m.	None
		Saturday	9:00 a.m. to 5:00 p.m.	None
		Sunday	11:00 a.m. to 3:00 p.m.	None
Corvallis Branch	1070 Eastside Highway Corvallis, MT	Monday-Thursday	9:00 a.m. to 5:00 p.m.	8:30 a.m. to 5:00 p.m.
		Friday	9:00 a.m. to 5:00 p.m.	8:30 a.m. to 6:00 p.m.
		Saturday	Closed	9:00 a.m. to 1:00 p.m.
North Valley Super 1 Foods Branch	39 Stevensville Cutoff Road Stevensville, MT	Monday-Friday	9:00 a.m. to 7:00 p.m.	None
		Saturday	9:00 a.m. to 5:00 p.m.	None
		Sunday	11:00 a.m. to 3:00 p.m.	None

Alternative delivery methods. The bank offers eight automated teller machines (ATM) located in Hamilton, Corvallis, Stevensville, and Darby, Montana. The bank also offers online banking. With Internet banking, customers can review account information, transfer funds, make loan payments, and utilize bill-payment services. Customers are also able to apply for personal loans electronically. The bank's services are accessible to customers throughout the assessment area.

Loan portfolio. According to the June 30, 2009, Report of Condition (ROC), the bank's assets total \$197.1 million. The bank's \$144.6 million loan portfolio consists of 46.3% residential real estate, 48.1% commercial, 2.5% consumer loans, 2.6% agricultural loans, and less than 1% other loans. Since the previous examination, the loan portfolio has grown by 43.7%, and total assets have increased by 39.8%. The composition of the bank's loan portfolio has changed since the previous examination. Construction and closed-end residential real estate lending increased as a percentage of the loan portfolio by 8.7% and 7.9%, respectively, while commercial lending has decreased as a percentage of the loan portfolio by 5.2%. The evaluation did not reveal any financial constraints on the bank's ability to lend within its assessment area during the evaluation period.

Credit products. The bank continues to offer a variety of consumer, residential real estate, and commercial loan products to meet the credit needs of the residents and businesses within its assessment area. The bank refers requests for Department of Veterans Affairs (VA), Federal Housing Administration (FHA), Montana Board of Housing, and Rural Development loans to a national mortgage company.

Market share. The bank ranks second of seven financial institutions operating in Ravalli County and holds 25.6% of the market's deposits, according to the June 30, 2008, Federal Deposit Insurance Corporation Deposit Market Share Report.

Community contacts. In addition to interviews with bank management, this evaluation included discussion with members of the community familiar with economic issues and demographic characteristics within the assessment area. Information from these sources was used to evaluate the bank's CRA performance.

DESCRIPTION OF ASSESSMENT AREA

Assessment area. The bank's assessment area includes all of Ravalli County, Montana. Ravalli County is located in the western part of the state, which is known as the Bitterroot Valley. The assessment area is composed of eight census tracts and includes one moderate-income census tract, six middle-income census tracts, and one upper-income census tract. The assessment area does not include any low-income census tracts. The bank's offices are located in middle-income census tracts. The bank has ATMs in moderate- and middle-income census tracts. The moderate-income census tract contains 5.7% of the population of the county. The City of Darby is in this census tract with the majority of the tract population in close proximity to Highway 93. The remainder of the census tract is national forest land.

Population. According to 2000 U.S. Census data, 36,070 people reside in the bank's assessment area. According to 2008 population estimates published by the U.S. Census, the population of Ravalli County is 40,664, a 12.7% increase since 2000. Of the 14,259 households in the assessment area, 20.1% and 17.7% are low and moderate income, respectively. This is similar to the level of low- and moderate-income households for the state of Montana, which are 22.8% and 16.7%, respectively. The level of households and families in the assessment area below the poverty level, 12.1% and 9.6%, respectively, are slightly lower than the state of Montana, which are 14.1% and 10.5%, respectively. Additional demographic information for the bank's assessment area in Table 3 is based on 2000 U.S. Census data and 2008 small business and small farm data from Dun & Bradstreet.

TABLE 3
Assessment Area Demographics

<i>Income Categories*</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0.0	0	0.0	0	0.0	1,815	17.8
Moderate Income	1	12.5	598	5.9	76	12.7	2,035	20.0
Middle Income	6	75.0	8,513	83.6	863	10.1	2,445	24.0
Upper Income	1	12.5	1,076	10.5	39	3.6	3,892	38.2
Total Assessment Area	8	100.0	10,187	100.0	978	9.6	10,187	100.0
<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>			<i>Rental</i>		<i>Vacant</i>	
		<i>#</i>	<i>%</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	951	555	5.1	58.4	263	27.7	133	14.0
Middle Income	13,613	9,168	84.8	67.3	2,997	22.0	1,448	10.6
Upper Income	1,382	1,092	10.1	79.0	214	15.5	76	5.5
Total Assessment Area	15,946	10,815	100.0	67.8	3,474	21.8	1,657	10.4
<i>Income Categories</i>	<i>Total Businesses by Tract</i>	<i>Businesses by Tract and Revenue Size</i>						
		<i>≤\$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>		
		<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	114	4.6	105	4.5	5	4.3	4	7.3
Middle Income	2,198	87.8	2,045	87.7	107	92.2	46	83.6
Upper Income	191	7.6	182	7.8	4	3.4	5	9.1
Total Assessment Area	2,503	100.0	2,332	100.0	116	100.0	55	100.0
Percentage of Total Businesses:				93.2		4.6		2.2
<i>Income Categories</i>	<i>Total Farms by Tract</i>	<i>Farms by Tract and Revenue Size</i>						
		<i>≤\$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>		
		<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	23	9.1	23	9.2	0	0.0	0	0.0
Middle Income	210	83.3	208	83.2	2	100.0	0	0.0
Upper Income	19	7.5	19	7.6	0	0.0	0	0.0
Total Assessment Area	252	100.0	250	100.0	2	100.0	0	0.0
Percentage of Total Farms:				99.2		0.8		0.0

*Income categories are defined in Appendix A.

Income. In order to classify borrowers by income level, this evaluation uses the Department of Housing and Urban Development's (HUD) estimated median family income. For borrowers residing in nonmetropolitan Montana, the estimated median family income for 2009 is \$53,500. For classifying census tracts by income level, this evaluation uses the 2000 census median family income of \$39,050.

Economy. According to bank management and community contacts, the assessment area economy was stable and experiencing growth throughout much of the evaluation period; however, in mid-2008, the local economy started experiencing a downturn. The change in the local economy is tied to the downturn

in the national economy. Although nationwide economic conditions adversely affected the community, the overall impact is not as severe as in other Montana communities.

Local businesses appear to be weathering the economic downturn but are struggling. According to community contacts and bank management, the retail industry has been adversely impacted as consumer spending has tightened. Some local businesses have closed. Due to ties to the struggling national housing market, the timber and log home manufacturing industry experienced downsizing and a business closure, resulting in a high number of job losses.

The housing market has slowed with the recent economic changes in the assessment area and has affected related businesses. Residential construction and existing home sales declined and sales of high-end homes in particular suffered.

Community contacts indicated that the area's main industries include health and medical, tourism and recreation, and retail. As a result of the above-mentioned changes in the timber and log home manufacturing industry, it is no longer considered a main industry in the area. The area's major employers include one of the nation's largest pharmaceutical companies, the local hospital, a federal government medical research laboratory, the school system, local government, a large local grocery store, and a steel manufacturing corporation. Community contacts conveyed that the downturn in the economy led to a rise in unemployment. The area's unemployment rate for July 2009, is 7.9% compared to 4.0% at the time of the last evaluation. The state unemployment rate is 6.7% for the same period. The July 2009, national unemployment rate is 9.4%.

The agricultural industry is shrinking as a component of the economy but is still important. The lack of growth in agriculture can be attributed to high input costs and high cost of land according to a community contact. Primary agricultural activities include cattle and sheep ranching as well as alfalfa, hay, and sugar beet crops.

Housing. According to bank management and community contacts, affordable housing remains an issue in the area. Community contacts and bank management indicated that although housing values declined over the last year, many starter homes remain unaffordable for area residents given the appreciation of home values over recent years, lower wages, and the need for at least two incomes to support households. One community contact indicated that although the current starter home value is approximately \$169,000, starter home prices were near \$214,000 in 2008. The contact indicated that prior to the economic downturn there was high demand from individuals purchasing homes for investment and retirement purposes. The increase in demand resulted in higher home prices. There has been some affordable housing construction; however, it has not fully addressed the need in the assessment area.

Community contacts and bank management indicated that the financial services market in the assessment area is competitive for all product types. Numerous financial institutions operate in the assessment area, including branches of significantly larger banks. The community contacts did not identify any unmet credit needs in the bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is outstanding. The distribution of borrowers reflects very good penetration among individuals of different income levels and businesses of different sizes. The geographic distribution of loans across census tracts of different income levels is good and does not reveal any unexplained gaps in lending. In addition, the bank's net loan-to-deposit ratio indicates a good level of lending, and a majority of loans in the sample were originated to

borrowers residing inside the bank's assessment area. The bank's community development lendings, investments, and services also contributed to the bank's overall rating.

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

The bank's level of lending to low- and moderate-income borrowers and small businesses is very good, and generally compares favorably to the demographic characteristics of the assessment area.

Consumer lending. The bank's level of lending to low- and moderate-income individuals is excellent. As illustrated in Table 4, 20.1% and 17.7% of the households in the assessment area are low- and moderate-income, respectively. The bank's level of lending to low- and moderate-income households exceeds demographics, as the bank originated 27.3% and 32.5% of the consumer loans to low- and moderate-income households, respectively. The bank offers a variety of consumer loan products to serve the needs of residents of the assessment area. Further, the bank originates loans for a variety of reasons including living expenses. Many of the sampled loans were for amounts less than \$3,000.

	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer	27.3%	18.6%	32.5%	29.9%	16.9%	17.4%	16.9%	21.4%	6.5%	12.8%
Percentage of Households by Income Levels**	20.1%		17.7%		21.3%		40.9%		0.0%	
*HUD estimated median family income for nonmetropolitan Montana is \$53,500 for 2009.										
**Based on 2000 U.S. Census data.										

Residential real estate lending. The bank's residential real estate lending to low- and moderate-income borrowers is below demographics but nonetheless is good. Table 5 reflects the percentages of residential real estate loans made to borrowers of different income levels during the sample period. As discussed previously, many homes are not affordable for low- and moderate-income residents of the assessment area. Starter home prices were as high as \$214,000 in 2008 and currently are \$169,000. Housing prices are high relative to local wages, and many households need at least two incomes to support the household. Even at the current price of \$169,000, assuming 25% of monthly income is used for housing, low- and moderate-income borrowers cannot afford a starter home. The bank's level of lending to middle- and upper-income borrowers is comparable to the demographic distribution of middle- and upper-income families in the assessment area.

	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Residential Real Estate	10.9%	5.5%	7.3%	3.3%	25.5%	36.3%	50.9%	52.4%	5.5%	2.5%
Percentage of Families by Income Levels**	17.8%		20.0%		24.0%		38.2%		0.0%	
*HUD estimated median family income for nonmetropolitan Montana is \$53,500 for 2009.										
**Based on 2000 census data.										

Small business lending. The bank's level of lending to small businesses is good. According to 2008 Dun & Bradstreet data, 93.2% of businesses in the assessment area have gross annual revenues of \$1 million or less. As illustrated in Table 6, the majority, 86.3%, of the bank's small business loans were made to entities with gross annual revenues of \$1 million or less.

<i>Small Business Loan Originations</i>	\leq \$100,000	> \$100,000 to \leq \$250,000	> \$250,000 to < \$1 Million (Business)	<i>Total Originations</i>
Percentage of All Small Business Loans	84.3%	9.8%	5.9%	100.0%
Percentage of Loans to Businesses with Revenues Less Than or Equal to \$1 million	81.8%	11.4%	6.8%	86.3%

The percentage of loans made to businesses with a gross annual revenue of \$1 million or less is lower than assessment area demographics; however, it is reasonable given the area's highly competitive banking environment for small business loans. In addition, the majority of the bank's small business loans were originated for amounts of \$100,000 or less. Accordingly, the bank's small business lending is good.

Overall, the bank's lending reflects very good penetration among businesses of different sizes and individuals of different income levels. The bank's residential real estate lending and lending to small businesses in the assessment area are slightly below assessment area demographics but reasonable. The bank's consumer lending to low- and moderate-income individuals exceeds the assessment area demographics.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's loans in the assessment area is good and does not reveal any unexplained gaps in lending patterns. There are no low-income census tracts and one moderate-income census tract in the assessment area. The remainder of the census tracts in the assessment area are middle and upper income. The bank originates the majority of its loans in the middle-income census tracts, which is reasonable since 83.6% of the families and 87.8% of small businesses in the assessment area are located in these tracts. As mentioned previously, only 5.7% of the population resides in the moderate-income tract.

The bank did not originate consumer, residential real estate, or small business loans in the upper-income census tract. According to bank management, the lack of a branch located in the census tract as well as competition from other financial institutions affected the bank's ability to lend in the area. The upper-income census tract is located in the northern part of the assessment area and is in close proximity to many financial institutions in Ravalli County and neighboring Missoula County. Additionally, the bank operates in a competitive environment providing numerous banking options for consumers and businesses in the assessment area.

Consumer lending. As illustrated in Table 7, the bank's performance in originating consumer loans to borrowers residing in moderate-income census tracts is good. The bank originated 3.9% of the consumer loans in the sample to individuals residing in the moderate-income census tract. The geographic distribution of the bank's consumer loans indicates that the bank is meeting the credit needs of residents in the assessment area's moderate-income census tract.

<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Consumer	0.0%	0.0%	3.9%	5.2%	96.1%	94.8%	0.0%	0.0%
Residential	0.0%	0.0%	9.1%	11.1%	90.9%	88.9%	0.0%	0.0%
Small Business	0.0%	0.0%	5.9%	1.6%	94.1%	98.4%	0.0%	0.0%
<i>Demographic Data by Income Level of Census Tract</i>								
Households	0.0%		5.7%		85.2%		9.2%	
Families	0.0%		5.9%		83.6%		10.6%	
Businesses**	0.0%		4.6%		87.8%		7.6%	
Number of Census Tracts in Assessment Area	0		1		6		1	
Percentage of Total Number of Census Tracts	0.0%		12.5%		75.0%		12.5%	
*Income level is based on 2000 HUD estimated median family income for nonmetropolitan Montana. **2008 Dun & Bradstreet Business Demographic Data.								

Residential real estate lending. As illustrated in Table 7, the level of the bank's residential real estate lending to borrowers residing within the moderate-income census tract is very good and exceeds demographics. The bank originated five residential real estate loans in the sample, or 9.1% of the loans, to borrowers residing in the moderate-income census tract. The bank's level of lending within the moderate-income census tract compares favorably to the percentage of moderate-income families living within the census tract. The bank's level of lending in the moderate-income census tract also compares favorably with the owner-occupancy rate within the same tract, which is 5.1%.

Small business lending. As shown in Table 7, the bank's level of lending to businesses located in the moderate-income census tract is also very good and compares favorably to demographics. According to 2008 Dun & Bradstreet data, 4.6% of the businesses in the assessment area are located in the moderate-income census tract. The bank originated 5.9% of the small business loans in the sample to businesses located in the moderate-income census tract. The bank's small business lending reflects good distribution among census tracts of different income levels and does not reveal any unexplained gaps in lending patterns.

Overall, the geographic distribution of the bank's loans in the assessment area is good. The bank originates loans in the moderate-income census tract. The geographic distribution shows that loans are dispersed throughout the assessment area, leaving no unexplained gaps in lending patterns.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's level of lending within its assessment area is very good. Overall, a majority of loans were extended to borrowers within the assessment area, specifically, 90.1% by number and 79.3% by total loan dollars.

<i>Loan Type</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Consumer	77	97.5	677	98.8	2	2.5	8	1.2
Residential	55	84.6	7,379	73.7	10	15.4	2,628	26.3
Small Business	51	86.4	3,066	91.9	8	13.6	270	8.1
Total	183	90.1	11,122	79.3	20	9.9	2,906	20.7

Small business and residential lending within the assessment area are slightly lower than consumer lending. Of the ten residential loans in the sample made outside the assessment area, several were made in counties neighboring the bank's assessment area and several were for vacation homes for borrowers living outside of Montana. Of the eight small business loans in the sample made outside the assessment area, several loans were also made in counties neighboring the bank's assessment area. A number of small business loans were made outside the assessment area due to relationship banking.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is good given the asset size and financial condition of the bank during the evaluation period, the credit needs of the assessment area, and the high level of competition with area financial institutions. According to the June 30, 2009, Uniform Bank Performance Report, the bank's net loan-to-deposit ratio is 96.7%. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio ranged from 85.9% to 114.8% over 20 quarters. At the last CRA evaluation, the bank's quarterly net loan-to-deposit ratio ranged from 80.0% to 101.0%.

The bank's 20-quarter average net loan-to-deposit ratio is 100.0%, which is slightly lower than one local competitor and significantly higher than another local competitor. The bank's 20-quarter average net loan-to-deposit ratio exceeds the average net loan-to-deposit ratio of 80.2% for its peer group. The bank's peer group includes all insured commercial banks having assets between \$100 million and \$300 million in a nonmetropolitan area with three or more full-service banking offices. At the last evaluation, the bank's 20-quarter average net loan-to-deposit ratio was 88.0%. Since the last evaluation, the bank has experienced continued deposit and loan growth; however, loan demand for construction and land development loans and first lien real estate loans during the evaluation period caused loans to grow at a greater pace than deposits.

Table 9 displays the 20-quarter average net loan-to-deposit ratios for two of the bank's local competitors.

<i>Bank Name and Location</i>	<i>Total Assets as of June 30, 2009 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
Ravalli County Bank, Hamilton, Montana	\$197,081	100.0%
Farmers State Bank, Victor, Montana	\$313,647	76.7%
Bitterroot Valley Bank, Lolo, Montana	\$201,228	108.5%

According to the June 30, 2008, Federal Deposit Insurance Corporation Deposit Market Share Report, Ravalli County Bank ranks second out of seven financial institutions located in Ravalli County with 25.6% of the deposits, and Farmers State Bank ranks first with 41.7% of the deposits. Bitterroot Valley Bank is located in Missoula County, Montana. As mentioned previously, the financial services market in the assessment area is competitive for all product types. Numerous financial institutions operate in Hamilton and surrounding communities, including branches of significantly larger banks.

Community development lending. The bank originated six community development loans in its assessment area totaling \$897,459 for affordable housing purposes. Since affordable housing is an important concern for the community, the bank's willingness and level of involvement in these projects demonstrates responsiveness to the community development needs of the area. This lending activity supplements the bank's loan-to-deposit ratio and further illustrates the bank's commitment to meeting the credit needs of the assessment area.

Given the bank's size, financial condition, and assessment area credit needs during the evaluation period, the bank's loan-to-deposit ratio is good.

COMMUNITY DEVELOPMENT INVESTMENTS AND SERVICES:

Since the previous evaluation, the bank made qualified community development investments and provided services that enhance the availability of credit in its assessment area.

The bank made a considerable amount of community development investments in the form of donations since the previous evaluation, totaling \$73,591. This is a significant increase since the previous evaluation. These donations were primarily to organizations providing community services targeting low- or moderate-income individuals; however, a small number of donations were made to organizations that promote economic development by financing small businesses. For example, donations to a local economic development organization help increase its revolving loan fund and expand programs that promote local job creation and teach community residents new job skills. The bank's donations to organizations offering community services targeting low- and moderate-income individuals are vital since nearly 40% of the assessment area's households are low or moderate income.

In addition to making community development investments, the bank also provides community development services that meet the community development objectives discussed previously and further enhance its CRA rating.

- The senior vice president serves as president for a local neighborhood housing authority that provides homeownership opportunities targeting low- and moderate-income individuals.
- A vice president serves as a board member for a local economic development organization.
- The senior vice president and a vice president instruct homebuyer education courses targeted to low-and moderate-income potential homebuyers.
- A vice president serves as a board member of two organizations providing community services that target low- and moderate-income individuals.
- The senior vice president serves as president of an organization providing community services targeted to low- and moderate-income individuals.
- The bank's cash-dispensing ATM in Darby, Montana, is located in a moderate-income census tract.

Overall, the bank's level of making qualified community development investments and providing services enhances its performance and contributes significantly to the outstanding rating.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

The bank and the Federal Reserve Bank of Minneapolis have not received any CRA-related complaints since the previous examination.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

Appendix A

Glossary of Common CRA Terms

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation (the Agencies) have adopted the following additional language as part of the revitalize or stabilize definition of community development.

Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies based on:
 - a. Rates of poverty, unemployment, and population loss or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help meet essential community needs, including the needs of low- and moderate-income individuals.

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. It does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

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

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

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

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

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

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

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

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

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan statistical area (MSA): An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan to business: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

Small loan to farm: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)