

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 Security Bank of Havre, Havre, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of April 8, 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."

Three primary factors support this rating. First, the bank maintains a reasonable loan-to-deposit ratio. Second, the bank made a significant number of its loans within its assessment area. Third, the bank has an excellent distribution of loans among individuals of different income levels.

The following table indicates the performance level of First Security Bank of Havre, Havre, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST SECURITY BANK OF HAVRE 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 Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the prior evaluation.		

DESCRIPTION OF INSTITUTION

Based on a variety of factors, the bank is able to meet the credit needs of the local community in an effective manner. The bank's one office is in Havre, Montana, which is located in the north-central "high line" region of Montana, about 45 miles south of the Canadian border.

The bank's size supports its ability to meet credit needs in its assessment area. Based on the December 31, 1995, Report of Condition ("ROC") information, the bank had total assets of approximately \$54.3 million. Since September 30, 1994, the bank's assets have increased by approximately \$9.7 million. As of December 31, 1995, the bank's loan portfolio consisted of approximately 48% agricultural, 20% real estate, 20% commercial, and 12% consumer loans. According to quarterly ROC information, the bank's percentage of real estate loans has decreased slightly and the percentages of commercial and consumer loans have increased slightly since the previous CRA evaluation.

The bank offers many types of loan products. In addition to offering a variety of commercial and agricultural loans, the bank offers the following consumer real estate products: construction, mobile home, Department of Housing and Urban Development ("HUD") Section 184, Federal Housing Administration, Department of Veterans Affairs, Montana Board of Housing, Montana Board of Investments, and Rural Economic and Community Development Services (formerly Farmers Home Administration) loans. The bank also originates and sells conventional and government-insured real estate loans to vendors on the secondary market. Furthermore, the bank offers Small Business Administration and Bureau of Indian Affairs loans. In addition, it provides closed- and open-end loans for a variety of consumer purposes.

As stated, the bank's only office is located in Havre, Montana. The bank has not opened or closed any offices since its inception. The bank is able to provide its products and services to its entire assessment area.

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area includes Hill, Liberty, and Blaine counties, and about one-third of Chouteau County. The assessment area includes the following block numbering areas ("BNA"):

Hill County: 9731, 9732, 9733, 9734, 9735, 9736, and 9737
Liberty County: 9745 and 9746
Blaine County: 9723, 9724, and 9725
Chouteau County: 9714

In addition to Havre, the bank's assessment area includes the Montana communities of Chester, Hingham, Big Sandy, Chinook, and Harlem, the Rocky Boys Indian Reservation, and the majority of the Fort Belknap Indian Reservation. The sparsely populated eastern quarter of the Fort Belknap Indian Reservation is located in Phillips County, Montana, which is not included in the bank's assessment area.

According to 1990 U.S. census data, the assessment area's population is 28,311. Havre has a population of 10,201 and is the county seat of Hill County, which has a population estimated at 18,000. The area's economy is primarily agricultural. A bumper crop reportedly was harvested in 1995, and 1996 crop prospects look favorable. Low cattle prices have adversely affected the livestock operations in the area. Havre serves as a hub for a railroad company, and major employers in the area include a college, hospital, and the local school district.

CRA divides income levels into four categories: low, moderate, middle, and upper income. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or BNA income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median income is considered an upper-income person. BNAs are classified using similar categories based on the level of the median family income in the geography.

As graphically represented on the map included as Attachment I, the bank's assessment area is divided into the following 13 BNAs:

<u>Low-Income BNAs</u>	<u>Moderate-Income BNAs</u>	<u>Middle-Income BNAs</u>	<u>Upper-Income BNAs</u>
None.	9723	9724	9731
	9725*	9714	9734
	9737**	9732	9736
		9733	
		9735	
		9745	
		9746	

*The Fort Belknap Indian Reservation

**The Rocky Boys Indian Reservation

According to 1990 U.S. census data, the assessment area's median family income is \$28,258, while the median family income for the nonmetropolitan areas in Montana is \$27,352. Approximately 21% of the population in the bank's assessment area reside in the moderate-income BNAs, 46% are in the middle-income BNAs, and 33% reside in the upper-income BNAs.

Although the bank's assessment area does not include any low-income BNAs, analysis of household income shows that the assessment area's population is concentrated at the ends of the spectrum. Low-income households comprise 24.1% of total households, and upper-income households comprise 42.9% of total households. Of the remaining households, 14.4% are moderate income and 18.5% are middle income. The assessment area's median household income of \$23,388 is below its median family income of \$28,258. According to 1990 U.S. census data, 18.3% of the assessment area's households are below the poverty level. As previously discussed, the bank's assessment area includes three moderate-income BNAs. Two of those BNAs, 9737 and 9725, include Indian reservations. The Rocky Boys Indian Reservation is located within BNA 9737; its median household income is \$18,859. The majority of the Fort Belknap Indian Reservation is located in BNA 9725; its median household income is \$13,603.

According to staff of the Chippewa Cree Tribe and the Fort Belknap Indian Community, the unemployment rate ranges between 70% to 80% on the reservations, and most tribal members are low- and moderate-income individuals. Most housing for tribal members has been built through HUD programs. The largest employers on the reservations are the respective tribes, the Bureau of Indian Affairs, the Indian Health Service, and the schools. In addition, many tribal members are ranchers.

During the evaluation, numerous business and tribal community contacts were made in the assessment area. Information from the contacts was used in evaluating the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. The criteria detailed below were evaluated in determining this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio is reasonable considering the assessment area's credit needs. As such, it meets the standard for satisfactory performance. According to the bank's December 31, 1995, ROC data, its quarterly loan-to-deposit ratio was approximately 69%. Since September 30, 1994, the quarterly average of the bank's net loan-to-deposit ratio has been 76%.

The following chart, based on quarterly ROC data, shows that the bank's loan-to-deposit ratio has decreased by 14 percentage points since the previous CRA evaluation. Analysis shows that the decrease in the loan-to-deposit ratio is primarily because the bank's total deposits increased by approximately \$10 million during that period. In the second quarter of 1995, the bank received a large deposit, which contributed to its substantial growth in deposits. The deposit represents temporary funds to be used for construction purposes; accordingly, these funds have not been invested in loans. The bank's total loans fluctuated during the same period, mostly because of seasonal variations related to the agricultural emphasis in the area's economy. Historically, loans have been at the lowest levels in December when farm lines have been paid down. This seasonal fluctuation explains the continued decline in the loan-to-deposit ratio since the deposit was made.

Date	Loans	Deposits	Net Loan-to-Deposit Ratio
September 30, 1994	\$32,258	\$39,028	83%
December 31, 1994	\$30,512	\$40,443	75%
March 31, 1995	\$29,979	\$38,725	77%
June 30, 1995	\$35,302	\$45,087	78%
September 30, 1995	\$35,881	\$46,969	76%
December 31, 1995	\$33,964	\$49,092	69%
Average Loan-to-Deposit			76%

According to the December 31, 1995, Uniform Bank Performance Report ("UBPR"), the bank's December 31, 1995 loan-to-deposit ratio places the bank in the 70th percentile of its peer group. The bank's competition in Havre includes branches of two regional banks, branches of two savings and loan associations, and two credit unions. A comparison of the bank to the regional bank competitors in Havre is not meaningful because of the vast difference in the sizes of the institutions. In addition, financial information is not available for the Havre branch offices of these institutions. UBPR data for independent area banks as of December 31, 1995, is shown in the chart below.

<u>Bank Name and Location</u>	<u>December 31, 1995 Total Assets (In Thousands)</u>	<u>December 31, 1995 Loan-to-Deposit Ratio</u>
FIRST SECURITY BANK OF HAVRE, HAVRE, MONTANA	\$54,352	69%
Bank A	\$60,544	66%
Bank B	\$27,322	77%

As noted, the bank originates and sells conventional and government-insured real estate loans to vendors on the secondary market. The bank's loan-to-deposit ratio identified in the chart does not include loans sold by the bank since the last evaluation. In addition, one economic development community contact described the bank as the most active commercial lender in the area, indicating that it has a positive reputation for working with small businesses. Another community contact knowledgeable about agricultural credit needs characterized the bank as an active agricultural lender. In 1995, the bank was one of the most active providers of Farmers Home Administration loans in the state.

As discussed previously under the Description of Institution section, the bank offers a variety of loan products that benefit the community. The bank has also originated several community development loans since the last evaluation. Specifically, the bank provided a substantial revolving line of credit to facilitate the construction of 45 low- and moderate-income housing units on the Fort Belknap Indian Reservation and funded several loans totaling a significant amount for the construction of 75 low- and moderate-income housing units on the Rocky Boys Indian Reservation. Several community contacts who have ties to the reservations mentioned during the evaluation that affordable housing is in short supply.

The bank's loan-to-deposit ratio is consistent with that of its competitors but has declined by 14 basis points since the last evaluation. Nevertheless, the bank has engaged in a number of community development loans benefiting moderate-income areas. Based on these facts, the loan-to-deposit ratio meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A review of a statistical sample of loans originated by the bank since the previous evaluation reveals that a majority of its loans were made inside its assessment area. The following table shows the percentages for the number and dollar volume of loan product lines that were inside the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA

<u>Major Loan Product Line</u>	<u>Total Number of Loans</u>	<u>Total Amount of Loans</u>
Real Estate Loans	97%	99%
Consumer Loans	93%	92%
Small Business/Agricultural	96%	94%

This level of concentration of loans in the assessment area exceeds standards for satisfactory performance. As noted in the table, the vast majority of all the bank's loans are within the assessment area.

DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

A review of the distribution of loans to borrowers of different income levels shows that the bank actively provides loans to borrowers of all income levels. The income level of consumer borrowers is compared to the median family income for a family residing outside the metropolitan statistical areas in Montana. As discussed previously, the assessment area median family income as of the 1990 U.S. census is \$28,258; Montana's nonmetropolitan median family income is \$27,352. The bank's distribution of loans by income level is shown in the following table.

DISTRIBUTION OF LOANS BY BORROWER INCOME LEVEL IN THE ASSESSMENT AREA *

Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
REAL ESTATE LOANS				
Percentage of total loans	9	15	26	50
Percentage of total loan amounts	3	7	19	71
CONSUMER LOANS				
Percentage of total loans	34	24	21	21
Percentage of total loan amounts	20	19	22	39

*Income level is based on the 1995 Montana nonmetropolitan median family income of \$32,200.

As illustrated above, the bank made a reasonable percentage of its consumer real estate loans to borrowers of different income levels since the last evaluation. Given high real estate costs in the area, the bank's consumer real estate lending to low- and moderate-income borrowers (24%) appears reasonable. Also, many low- and moderate-income people live on the two Indian reservations in the bank's assessment area where there have been few opportunities for the bank to become involved in real estate lending activity.

Most housing for tribal members has been built through HUD programs that do not require bank involvement. As discussed previously, low- and moderate-income individuals comprise 38% of the households in the assessment area. Although middle-income households make up only 19% of total households, the bank made 26% of its consumer real estate loans to middle-income borrowers. The bank made 50% of its consumer real estate loans to upper-income borrowers; 43% of total households in the assessment area are upper income. A community contact familiar with real estate activity in the area said that housing in all price ranges is in short supply. Such lending patterns by the bank seem reasonable given the lack of availability, the high cost of real estate, and competition from larger financial institutions and mortgage companies.

In contrast, the bank made more than half (58%) of its consumer loans to low- and moderate-income borrowers. Middle-income borrowers accounted for 21% of the bank's consumer loans, and upper-income borrowers accounted for another 21% of the bank's consumer loans. These lending patterns are reasonable given the assessment area's demographics as discussed above.

The bank makes almost all of its commercial and agricultural loans to small businesses and farms. Only three of the sampled borrowers had gross annual revenues exceeding \$1 million. In addition, 87% of the commercial and agricultural borrowers received loans for less than \$100,000. Only 8% of the borrowers received loans of at least \$100,000 but less than \$250,000, and 5% received loans in excess of \$250,000. Based on the bank's consumer, real estate, and business and agricultural lending relative to credit needs and demographic characteristics of the assessment area, the bank meets the standards of satisfactory performance in this category.

Geographic Distribution of Loans

Although the following chart shows that the vast majority of the bank's loans are within middle- and upper-income BNAs and that the percentage of the bank's loans in moderate-income BNAs is somewhat low, the distribution of the bank's

loans throughout its assessment area is reasonable. As such, the bank's geographic distribution of loans meets the standards for satisfactory performance.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL*			
Loan Type	Moderate- Income BNAs	Middle-Income BNAs	Upper-Income BNAs
COMMERCIAL AND AGRICULTURAL			
Total Number of Loans	19%	54%	27%
Total Amount of Loans	17%	59%	24%
CONSUMER REAL ESTATE			
Total Number of Loans	6%	35%	59%
Total Amount of Loans	2%	21%	77%
CONSUMER			
Total Number of Loans	16%	35%	49%
Total Amount of Loans	19%	32%	49%

*The bank's assessment area does not include any low-income BNAs.

As discussed, the bank's assessment area includes three moderate-income BNAs, seven middle-income BNAs, and three upper-income BNAs. The bank's sole office is located in Havre, which is within the boundaries of an upper-income BNA. Approximately 21% of the assessment area's 28,311 residents live in moderate-income BNAs. In comparison, about 46% of the residents live in middle-income BNAs and 33% live in upper-income BNAs. A review of the bank's loan portfolio, as discussed in the Description of Institution section, reveals that approximately 68% of the bank's loans are commercial and agricultural, 20% are consumer real estate, and 12% are consumer loans.

Also previously discussed, two of the moderate-income BNAs, 9737 and 9725, are located on Indian reservations, the residents of which historically have not been active real estate borrowers. In addition, both reservations have tribal loan programs that provide consumer loans for tribal members. Also, the other moderate-income BNA, 9723, has another bank located within its boundaries. This BNA is approximately 40 miles from the bank at its closest point. Despite these conditions, the consumer and commercial/agricultural lending in the moderate-income BNAs approximate the percentage of the assessment area's population residing in these areas. For the foregoing reasons, the bank's lending in the moderate-income BNAs is reasonable and meets the standards for satisfactory performance.

General Comments

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

PUBLIC DISCLOSURE

April 8, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Security Bank of Havre
Name of Depository Institution

09300590000
Identification Number of Institution

Havre, 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.