

## **PUBLIC DISCLOSURE**

May 19, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Teton Banks  
321 Central Avenue  
Fairfield, Montana 59436  
RSSD 637750

**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.

**TABLE OF CONTENTS**

Institution’s CRA Rating ..... 1

Scope of Evaluation ..... 1

Description of Institution ..... 2

Conclusions with Respect to Performance Criteria ..... 3

Fair Lending or Other Illegal Credit Practices Review..... 5

**NONMETROPOLITAN AREA – FULL REVIEW**

    Description of Teton County Assessment Area ..... 6

    Conclusions with Respect to Performance Criteria..... 8

**METROPOLITAN AREA – LIMITED REVIEW**

    Description of Cascade County Assessment Area ..... 12

    Conclusions with Respect to Performance Criteria..... 12

Appendix A..... 13

*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.

Examiners evaluated the Community Reinvestment Act (CRA) performance of Teton Banks 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, small farms, and small businesses in its assessment areas. Several factors support the bank's Satisfactory rating.

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

### **SCOPE OF EVALUATION**

The bank has two assessment areas for CRA purposes. The Teton County assessment area consists of all of Teton County. The Cascade County assessment area includes two census tracts in Cascade County, which are part of the Great Falls Metropolitan Statistical Area (Great Falls MSA). Based on the June 30, 2013, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report and lending data provided by the bank, the majority of the bank's activities take place in the Teton County assessment area. This assessment area includes the main office and one of the bank's two branches. The Cascade County assessment area represents only 4.8% of the bank's deposits and a small portion of the bank's loan originations. Therefore, examiners performed a full-scope review of the Teton County assessment area and a limited-scope review of the Cascade County assessment area. The CRA evaluation covers the period from February 22, 2010, to May 19, 2014.

Examiners based the evaluation of the bank's CRA performance in part on information provided by bank management and community contacts. Examiners analyzed information from these sources, the economic and demographic characteristics of the assessment areas, competitive factors, and the size and financial condition of the bank to understand the bank's performance.

As part of this evaluation, examiners used demographic characteristics to analyze the bank's record of lending in the individual assessment areas. Sources for demographic information are primarily the 2010 U.S. Census data and 2013 Dun & Bradstreet data. Demographics of a particular assessment area are useful in analyzing the bank's lending because they provide a means of estimating lending opportunities. For small farm and business lending, examiners used self-reported data collected and published by Dun & Bradstreet regarding the revenue size and location of businesses to understand loan demand and lending patterns. The demographic data should not be construed as defining an expected level of lending in a particular area or to a particular group of borrowers.

As part of this evaluation, examiners also contacted individuals familiar with economic and demographic characteristics in the assessment areas. Examiners used information obtained during these contacts to establish a performance context for the CRA evaluation. Specific information obtained from community contacts is discussed in the applicable sections of the evaluation for each assessment area. None of the contacts identified any unmet credit needs in the bank's assessment areas.

The scope of the evaluation covers the bank’s major product lines, which include small farm, small business, consumer loans, and loans subject to the Home Mortgage Disclosure Act (HMDA). Table 1 shows the bank’s lending activities by loan type for 2013.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Consumer	402	42.9	\$3,990,132	5.4
Residential Real Estate	34	3.6	\$3,458,703	4.7
Small Business (≤ \$1 million)	198	21.1	\$13,728,707	18.5
Commercial (> \$1 million)	4	0.4	\$11,418,557	15.4
Small Farm (≤ \$500,000)	282	30.1	\$29,536,016	39.9
Agriculture (>\$500,000)	17	1.8	\$11,945,329	16.1
<b>Total</b>	<b>937</b>	<b>100.0</b>	<b>\$74,077,444</b>	<b>100.0</b>

Examiners based the evaluation on statistical samples of the bank’s loans. The samples consist of 118 small farm loans originated between January 1, 2013, and December 31, 2013, and 63 small business and 100 consumer loans originated between July 1, 2013, and December 31, 2013. In addition, because the bank has an office located in the Great Falls MSA, the bank is required to report HMDA data. Accordingly, the analysis also included the bank’s 2011, 2012, and 2013 HMDA data. The bank originated 37 HMDA loans in 2011, 46 in 2012, and 38 in 2013. Please refer to the glossary in Appendix A for the definition of loan types.

Examiners analyzed the following criteria to determine the rating:

- Lending to farms and businesses of different sizes and to borrowers of different income levels.
- Geographic distribution of loans.
- Lending inside the assessment areas.
- Net loan-to-deposit ratio.
- Record of responding to complaints regarding the bank’s CRA performance.

For the evaluation criteria, examiners placed the greatest weight on the bank’s lending to farms and businesses of different sizes and borrowers of different income levels. Examiners weighted the remaining criteria equally. By product, small farm lending received the greatest weight. It represents the largest percentage of the bank’s loan portfolio by dollar amount and a significant percentage of the bank’s loan originations during the sample period. The bank has not received any CRA-related complaints since the previous evaluation.

## **DESCRIPTION OF INSTITUTION**

*Structure.* Teton Banks is a full-service financial institution with its main office in Fairfield, Montana. It is wholly owned by Teton Bancshares, Inc., Fairfield. Teton Banks is the resulting entity of the February 22, 2010, affiliate merger between First National Bank of Fairfield, Fairfield, and Citizens State Bank, Choteau, Montana. Both banks received Satisfactory ratings at their previous CRA evaluations.

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

*Offices and Retail Delivery Systems.* The bank operates three full-service locations in Montana. They include one location each in Fairfield, Choteau, and Vaughn, Montana. As of the previous evaluation, the bank had only one location, in Choteau. The bank acquired the Fairfield and Vaughn locations as a result of the 2010 merger. The bank offers drive-up services at all locations. The bank operates a cash-dispensing-only automated teller machine (ATM) in the lobby or within close proximity of each office. Since the previous evaluation, the bank relocated an ATM from a convenience store to its branch location in Vaughn. The new location is less than one mile from the former location.

The bank also offers online banking. Online banking customers can view account information, make loan payments, transfer funds, and use bill payment services.

*Loan Portfolio.* According to the March 31, 2014, Report of Condition, the bank's assets total \$194.3 million, with a loan portfolio of \$100.1 million. Agricultural loans constitute the majority of the bank's loan portfolio by dollar amount. The loan portfolio consists of 54.3% agricultural, 29.3% commercial, 9.4% residential real estate, and 6.3% consumer loans. Since the previous evaluation, the bank's total assets increased by 150.0%. This growth is attributed to the 2010 merger. Since the merger, the bank's total assets increased by 17.1%. The composition of the loan portfolio remained relatively stable throughout the evaluation period.

*Credit Products.* The bank offers a variety of loan products designed to serve the credit needs of residents, small farms, and small businesses in the assessment areas. In addition to offering conventional agricultural and commercial loan products, the bank continues to participate in state and federal loan programs sponsored by the Farm Service Agency and the Small Businesses Administration. Real estate lending includes loans for purchase, refinance, mobile homes, and home improvement as well as temporary construction loans. Consumer lending includes secured and unsecured loans for purchasing vehicles and for other personal purposes.

## **DESCRIPTION OF ASSESSMENT AREAS**

The bank's assessment areas have changed since the previous evaluation. At the time of the previous evaluation, the bank had one office located in Teton County and defined its assessment area as all of Teton County. The bank acquired two additional locations as a result of the 2010 merger. Specifically, the bank acquired an additional office in Teton County and an office in Cascade County, which is part of the Great Falls MSA. The bank now has two assessment areas, the Teton County assessment area and the Cascade County assessment area. The Teton County assessment area continues to include all of Teton County. According to 2010 census data, this assessment area contains three middle-income census tracts, all of which are underserved. The Cascade County assessment area includes two middle-income census tracts. More detailed descriptions of the bank's assessment areas can be found in the separate assessment area sections.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's performance in meeting the credit needs of its assessment areas is satisfactory. Overall, the bank's lending to farms and businesses of different sizes and borrowers of different income levels is reasonable. The geographic distribution of loans reflects reasonable distribution and dispersion throughout the assessment areas. The net loan-to-deposit ratio is reasonable given the bank's size and financial condition and the assessment areas' credit needs. The bank originated a majority of its loans inside the assessment areas.

Since Teton Banks has two assessment areas, examiners conduct a separate analysis for the bank's performance in each assessment area. The detailed discussion of the bank's lending to borrowers of different income and revenue levels and the geographic distribution of the bank's loans can be found in the individual assessment area sections. However, examiners completed the analysis of the net loan-to-deposit ratio, the comparison of lending inside and outside the assessment areas, and the bank's record of response to complaints at the bank level. These three criteria are discussed below.

### LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable given the bank's size and financial condition as well as the credit needs in the bank's assessment areas. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio ranged from 57.6% to 74.8%. The average net loan-to-deposit ratio for the past 17 quarters is 65.1%. The bank's average net loan-to-deposit ratio is comparable to the national peer group's average net loan-to-deposit ratio, which is 71.8%. The bank's national peer group includes all insured commercial banks having assets between \$100 million and \$300 million, with three or more full-service locations. Examiners were unable to identify any similarly situated financial institutions in the assessment areas. Therefore, there are no comparable local competitors for the loan-to-deposit ratio analysis.

The bank's average net loan-to-deposit ratio at the previous evaluation was 80.2%, which is higher than the average net loan-to-deposit ratio of 65.1% at this evaluation. Bank management noted a general decline in demand for credit during the evaluation period due to strong performance in the agricultural sector. The bank also has several large depositors that affect the ratio. Finally, the seasonal nature of agricultural lending causes typical fluctuations in the bank's ratio.

The net loan-to-deposit ratio demonstrates the bank's willingness to fulfill the credit needs in its assessment areas. In addition, community contacts and bank management did not identify any unmet credit needs in the assessment areas. For these reasons, the bank's net loan-to-deposit ratio is reasonable.

### COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREAS

The bank originated a majority of its loans within the assessment areas. Specifically, the bank originated 69.4% of loans by number and 68.3% by dollar amount inside its assessment areas. Table 2 shows lending activity by loan type within the assessment areas.

<i>Loan Category</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>
Small Farm	71	60.2	7,986	62.0	47	39.8	4,903	38.0
Small Business	38	60.3	4,559	71.9	25	39.7	1,785	28.1
Consumer	73	73.0	785	71.4	27	27.0	315	28.6
HMDA	97	80.2	4,595	77.7	24	19.8	1,316	22.3
<b>Total</b>	<b>279</b>	<b>69.4</b>	<b>17,926</b>	<b>68.3</b>	<b>123</b>	<b>30.6</b>	<b>8,319</b>	<b>31.7</b>

Of the loans originated outside the assessment areas, 82.1% were in counties adjacent to the assessment areas. Bank management indicated that it maintains consumer and business relationships with customers who no longer reside or operate in the bank's assessment areas. Bank management does not promote or

advertise the bank outside the assessment areas. The bank's lending shows its commitment to meeting the credit needs within its assessment areas.

#### RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

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

#### **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, Regulation C--Home Mortgage Disclosure Act, and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

**NONMETROPOLITAN AREA – FULL REVIEW**

**DESCRIPTION OF TETON COUNTY ASSESSMENT AREA**

*Banking Activity.* The bank operates two full-service offices and two cash-dispensing ATMs in the Teton County assessment area. The bank acquired an additional location in the assessment area since the previous evaluation because of the 2010 merger with First National Bank of Fairfield. The bank’s hours of operation at all offices are reasonable.

According to the June 30, 2013, FDIC Deposit Market Share Report, the bank has \$154.1 million in deposits in the assessment area. The bank ranks first of two financial institutions with offices in the assessment area, with 87.8% of the market share. The deposits in this assessment area represent 95.2% of the bank’s total deposits.

*Assessment Area.* The Teton County assessment area includes all of Teton County. This assessment area is unchanged since the previous evaluation. It contains three middle-income census tracts, all of which are classified as underserved.

Table 3 provides detailed data about the demographic characteristics of this assessment area. Assessment area demographics are based on 2010 census data and 2013 Dun & Bradstreet data.

<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families &lt; 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	419	23.7
Moderate Income	0	0.0	0	0.0	0	0.0	343	19.4
Middle Income	3	100.0	1,766	100.0	194	11.0	416	23.6
Upper Income	0	0.0	0	0.0	0	0.0	588	33.3
<b>Total Assessment Area</b>	<b>3</b>	<b>100.0</b>	<b>1,766</b>	<b>100.0</b>	<b>194</b>	<b>11.0</b>	<b>1,766</b>	<b>100.0</b>
<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	0	0	0.0	0.0	0	0.0	0	0.0
Middle Income	2,906	1,861	100.0	64.0	597	20.5	448	15.4
Upper Income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>2,906</b>	<b>1,861</b>	<b>100.0</b>	<b>64.0</b>	<b>597</b>	<b>20.5</b>	<b>448</b>	<b>15.4</b>
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
			<i>≤\$1 Million</i>		<i>&gt;\$1 Million</i>		<i>Revenue Not Reported</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	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	401	100.0	362	100.0	20	100.0	19	100.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>401</b>	<b>100.0</b>	<b>362</b>	<b>100.0</b>	<b>20</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>90.3</b>	<b>5.0</b>	<b>4.7</b>		



**TABLE 3**  
**Teton County Assessment Area Demographics**

<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
	#	%	<i>≤ \$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>	
			#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	211	100.0	211	100.0	0	0.0	0	0.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>211</b>	<b>100.0</b>	<b>211</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>100.0</b>		<b>0.0</b>		<b>0.0</b>

*Income.* For purposes of classifying borrowers by income in 2011, this evaluation uses the U.S. Department of Housing and Urban Development (HUD) estimated median family income for the nonmetropolitan areas of Montana. This figure was \$55,900 in 2011. The Federal Financial Institution Examination Council (FFIEC) announced that beginning in 2012, it will calculate the median family income previously calculated by HUD. The FFIEC estimated median family income for the nonmetropolitan areas of Montana is \$56,600 for 2012 and \$55,400 for 2013.

For the purpose of classifying census tracts by income level for the 2011 HMDA loans, this evaluation uses the median family income from the 2000 census for the relevant area. This figure is \$39,050 for the nonmetropolitan areas of Montana. For 2012 and 2013 HMDA loans, as well as the small business, small farm, and consumer loans in the sample, this evaluation uses the median family income from the 2010 census; this figure is \$54,140 for nonmetropolitan Montana.

*Population and Geographic Characteristics.* The population in the Teton County assessment area has declined over the past decade. According to 2000 census data, the population of the assessment area was 6,445. By 2010, the population decreased by 5.8%, to 6,073.

Of the 1,766 families in the assessment area, 23.7% are low income and 19.4% are moderate income. The percentages of low- and moderate-income families in the assessment area are slightly higher than the percentages for the state of Montana. The 2010 census data indicates that 11.0% of the families in the assessment area have incomes below the poverty level, while the statewide percentage of families with incomes below the poverty level is 9.7%.

*Economy.* According to bank management and community contacts, the economy is doing well. The economy relies heavily on the agricultural sector. Therefore, the area's economy remained relatively stable during the economic downturn in the real estate market. With such a reliance on the agricultural sector, the economy is vulnerable to fluctuations in commodity prices. However, bank management indicated that, although high, commodity prices have not drastically changed in the past few years. The area's main crops include barley and wheat, which at the end of 2013, sold for approximately \$9.50 and \$8.00 per bushel, respectively. Most of the area livestock operations raise cattle. Cattle prices were generally higher than average in 2013.

The area's high volume of barley production resulted in the addition of a grain elevator in late 2013. MillerCoors, LLC, Chicago, Illinois, recently completed construction of a 3.2 million bushel barley elevator in Teton County. This new facility will allow MillerCoors to contract for more barley in the area, resulting in increased sales for area growers.

Outside of agricultural-related employment, the area's main employers include the school district, health-care organizations, two local utility companies, and county and federal government. Community contacts indicated that small businesses in the area lack longevity. Small businesses will typically open and close within a short time but are almost always replaced by another business of the same type. Contacts attributed the short business life to the lack of support from area residents who choose to shop in Great Falls or online instead of locally.

According to the Bureau of Labor Statistics, the 2013 nonseasonally adjusted unemployment rate for Teton County was 4.3%, which is lower than the 2013 national average of 7.4%.

*Housing.* Community contacts stated the condition of homes in the area varies and prices are generally unaffordable. According to 2010 census data, the median housing value in Teton County is \$133,621, which is lower than the Montana median housing value of \$173,300. Although housing prices are lower than the state average, the community contact stated that area wages are insufficient to make the price of housing affordable. Real estate prices are somewhat inflated by out-of-state landowners who buy land for recreational purposes.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank effectively meets the credit needs of the Teton County assessment area. The bank's lending to small farms and businesses and low- and moderate-income borrowers is reasonable. Further, the geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending.

### **LENDING TO FARMS AND BUSINESSES OF DIFFERENT SIZES AND TO BORROWERS OF DIFFERENT INCOME LEVELS**

The bank's lending to farms and businesses of different sizes and to borrowers of different income levels in the Teton County assessment area is reasonable.

*Small Farm Lending.* The bank's lending to small farms is reasonable. According to 2013 Dun & Bradstreet data, 100.0% of the farms in the assessment area have gross annual revenues of \$1 million or less. As shown in Table 4, the bank made 90.9% of its small farm loans to small farms. Although lower than demographic data, the bank's small farm lending is reasonable given local economic conditions. Bank management stated that increased profits and the overall health of the agricultural sector resulted in decreased lending because farmers generally can pay cash instead. Bank management also indicated that it has strong relationships with existing agricultural customers and that some of these customers with gross annual revenues over \$1 million are likely to borrow multiple times throughout the year. The sample reflects this fact; 80.0% of the loans to farms with gross annual revenues over \$1 million were to the same borrower.

The bank originated the majority, 54.5%, of its small farm loans to small farms in amounts of \$100,000 or less. This demonstrates a willingness to serve the credit needs of small farms. Overall, the bank's lending to small farms is reasonable.

<i>Small Farm Originations</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\leq \$500,000$	<i>Total Originations</i>
Percentage of Small Farm Loans	54.5%	30.9%	14.5%	100.0%
Percentage of Loans to Farms with Revenues of \$1 million or Less	56.0%	30.0%	14.0%	90.9%

*Small Business Lending.* The bank's small business lending in the assessment area is reasonable. Table 5 details the small business lending activity in the assessment area.

<i>Small Business Originations</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\leq \$1,000,000$	<i>Total Originations</i>
Percentage of Small Business Loans	75.0%	7.1%	17.9%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	87.5%	8.3%	4.2%	85.7%

The bank originated 85.7% of its small business loans to entities with gross annual revenues of \$1 million or less. According to 2013 Dun & Bradstreet data, 90.3% of businesses in the assessment area have gross annual revenues under \$1 million. The percentage of loans made to businesses with a gross annual revenue of \$1 million or less is slightly lower than assessment area demographics; however, it is reasonable. Bank management indicated that it has strong relationships with existing commercial customers and that some of these customers with gross annual revenues over \$1 million are likely to borrow multiple times throughout the year.

Table 5 shows that the bank actively extends small-dollar loans; 87.5% of the bank's loans to businesses with revenues of \$1 million or less were for amounts of \$100,000 or less. This indicates a willingness to serve the credit needs of small businesses. Overall, the bank's lending to businesses with gross annual revenues of \$1 million or less is reasonable.

*Consumer Lending.* The bank's lending to low- and moderate-income borrowers is reasonable when compared to the percentages of low- and moderate-income households in the assessment area. Table 6 shows the percentage of lending for each income category.

	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer	29.2%	10.0%	32.3%	28.1%	21.5%	24.2%	16.9%	37.8%	0.0%	0.0%
Percentage of Households**	26.9%		18.1%		18.0%		37.0%		0.0%	

\*Income level is based on the 2013 FFIEC median family income of \$55,400 for the nonmetropolitan areas of Montana.  
\*\*According to 2010 census data.

The bank extended 29.2% of its consumer loans to low-income borrowers, which is comparable to the percentage of low-income households in the assessment area (26.9%). The bank's lending to moderate-income borrowers compares favorably to demographics. The bank extended 32.3% of its consumer loans to moderate-income borrowers, whereas 18.1% of households in the assessment area are moderate income. Combined, the bank extended 61.5% of consumer loans by number and 38.1% by total dollar amount to low- and moderate-income borrowers, which is a reasonable level of lending to these borrowers. The bank does not have a minimum loan amount for consumer loans, and there are few fees. Bank management also emphasizes relationship lending. Originating small-dollar loans and focusing on relationship lending indicates a willingness to meet the credit needs of low- and moderate-income borrowers. Overall, the bank's lending to borrowers of different income levels is reasonable.

*HMDA Loans.* The bank's HMDA lending to low- and moderate-income borrowers in the assessment area is reasonable. The bank is not an active HMDA lender in the assessment area. From 2011 to 2013, the bank originated 79 HMDA loans in the assessment area. Table 7 shows the bank's HMDA lending in the assessment area by borrower income levels.

<b>TABLE 7 HMDA Lending Teton County Assessment Area</b>										
<b>2013 HMDA Loans by Income Level of Borrower</b>										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	1	20.0	0	0.0	1	20.0	3	60.0	0	0.0
Refinance	0	0.0	0	0.0	1	33.3	2	66.7	0	0.0
Home Improvement	2	14.3	5	35.7	0	0.0	7	50.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	1	100.0
<b>Total 2013 HMDA Loans</b>	<b>3</b>	<b>13.0</b>	<b>5</b>	<b>21.7</b>	<b>2</b>	<b>8.7</b>	<b>12</b>	<b>52.2</b>	<b>1</b>	<b>4.3</b>
<b>2012 HMDA Loans by Income Level of Borrower</b>										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	2	22.2	0	0.0	3	33.3	4	44.4	0	0.0
Refinance	2	66.7	0	0.0	0	0.0	1	33.3	0	0.0
Home Improvement	3	14.3	5	23.8	6	28.6	5	23.8	2	9.5
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total 2012 HMDA Loans</b>	<b>7</b>	<b>21.2</b>	<b>5</b>	<b>15.2</b>	<b>9</b>	<b>27.3</b>	<b>10</b>	<b>30.3</b>	<b>2</b>	<b>6.1</b>
<b>2011 HMDA Loans by Income Level of Borrower</b>										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	1	11.1	2	22.2	0	0.0	3	33.3	3	33.3
Refinance	1	16.7	0	0.0	2	33.3	3	50.0	0	0.0
Home Improvement	0	0.0	1	12.5	2	25.0	3	37.5	2	25.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total 2011 HMDA Loans</b>	<b>2</b>	<b>8.7</b>	<b>3</b>	<b>13.0</b>	<b>4</b>	<b>17.4</b>	<b>9</b>	<b>39.1</b>	<b>5</b>	<b>21.7</b>

The bank's volume of HMDA lending in the assessment area is low; therefore, the bank's percentage of HMDA loans to low- and moderate-income borrowers is based on a very small number of HMDA loans

overall. Nevertheless, the bank's level of HMDA lending to low- and moderate-income borrowers is reasonable. The bank's 2011 through 2013 HMDA lending to low- and moderate-income borrowers is consistent with aggregate lending data from other HMDA lenders originating loans in the assessment area. Similarly, the bank's lending data is reasonable when compared to the percentages of low- and moderate-income families in the assessment area. Finally, the community contacts did not identify any unmet housing credit needs in the assessment area.

Overall, the bank's HMDA lending to low- and moderate-income borrowers is reasonable.

#### GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution and dispersion of the bank's loans in the assessment area is reasonable and does not reveal any unexplained gaps in lending patterns. The assessment area consists of three middle-income census tracts; therefore, an analysis of the distribution of loans among census tracts of different income levels is not possible. Bank management and community contacts did not identify any concentrations of low- or moderate-income families or households in the assessment area. The bank actively lends in all census tracts in the assessment area.

## METROPOLITAN AREA – LIMITED REVIEW

### DESCRIPTION OF CASCADE COUNTY ASSESSMENT AREA

The bank's performance in the Cascade County assessment area received a limited-scope review. The review revealed that the bank's performance in this assessment area is consistent with the performance in the Teton County assessment area.

The Cascade County assessment area includes two census tracts, which are part of the Great Falls MSA. Both tracts are middle-income census tracts. The bank has one full-service office in this assessment area, located in the town of Vaughn. Teton Banks acquired this location as part of the 2010 merger. Table 8 provides additional information about the assessment area.

<i>Income Type</i>	<i>Tract</i>		<i>Percentage of Population by Tract</i>	<i>Percentage of Families by Income Level</i>
	<i>#</i>	<i>%</i>		
Low Income	0	0.0	0.0	15.7
Moderate Income	0	0.0	0.0	18.1
Middle Income	2	100.0	100.0	22.4
Upper Income	0	0.0	0.0	43.8
<b>Total</b>	<b>2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank extends a reasonable number and dollar amount of loans in the Cascade County assessment area given the total deposits at the Vaughn branch. The bank's activity in this assessment area accounts for only 4.8% of the bank's total deposits and less than one percent of the bank's lending activity in 2013. The county is largely served by financial institutions in Great Falls, Montana, which is the county seat and population center of Cascade County. Given the bank's net loan-to-deposit ratio, lending activity, size of the Vaughn branch, and competition, the bank's lending performance in the Cascade County assessment area is consistent with its lending performance in the Teton County assessment area. The loan data used for this evaluation included 18 HMDA loans, 16 small farm loans, ten small business loans, and eight consumer loans.

## 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.)