PUBLIC DISCLOSURE

February 13, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Montana State Bank
220 North Main Street
Plentywood, Montana 59254
RSSD 655651

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

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

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

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

Montana State Bank's (MSB) Community Reinvestment Act (CRA) performance was evaluated using the Small Bank CRA Examination Procedures. Based on the bank's asset size and financial condition, the bank effectively meets the credit needs of the small farms and residents in its assessment area. The following factors support the bank's satisfactory rating:

- The bank's lending to farms of different sizes and to borrowers of different income levels is good.
- The bank's geographic distribution of loans is reasonable, with no unexplained gaps in lending.
- The bank's net loan-to-deposit ratio is reasonable given the bank's size and financial condition and the assessment area's credit needs.
- The bank originated a majority of its loans within the assessment area.

SCOPE OF EVALUATION

This evaluation is based on a statistical sample of 55 consumer and 106 small farm loans. The bank's consumer and small farm loans represent the bank's major product lines by either total number or total dollar amount. The sample period for consumer loans is May 1, 2011, to October 31, 2011. The sample period for small farm loans is November 1, 2010, to October 31, 2011.

Table 1 shows the bank's lending activity by loan type from January 1, 2010, through October 31, 2011.

TABLE 1[1]
Loan Originations From January 1, 2010, Through October 31, 2011

Loan Type	*Number of Loans*	*Percentage of Total Number*	*Total Loan Dollars*	*Percentage of Total Dollars*
Small Farm (≤ $500,000)	353	48.2	$29,760,071	76.6
Consumer	285	38.9	2,338,192	6.0
Small Business (≤ $1 Million)	87	11.9	4,232,445	10.9
Agricultural (> $500,000)	4	0.5	2,240,900	5.8
Real Estate Investment	3	0.4	271,525	0.7
Total	**732**	**100.0**	**$38,843,133**	**100.0**

The evaluation of the bank's CRA performance is also based in part on information received from bank management and community contacts. Information from these sources as well as economic and demographic characteristics of the assessment area, credit needs, competitive factors, and the size and financial condition of the bank were analyzed to evaluate the bank's performance.

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

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

[1]Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.

In assigning the overall rating, the greatest weight was placed on the bank's lending to farms of different sizes and borrowers of different income levels and the geographic distribution of loans inside the assessment area. The remaining criteria received equal weight. By product, small farm lending received the greatest weight, followed by consumer lending.

DESCRIPTION OF INSTITUTION

The bank effectively meets community credit needs in its assessment area given its size, location, and credit products. The bank received a satisfactory rating at the previous evaluation, dated April 16, 2007.

Structure. MSB is a full-service financial institution with its only office in Plentywood, Montana. The bank is wholly owned by Treasure Bancorp, Inc., a one-bank holding company also located in Plentywood.

Delivery systems. The bank has one full-service office in Plentywood. Lobby hours are 9:00 a.m. to 3:00 p.m. on Monday through Thursday and 9:00 a.m. to 4:30 p.m. on Friday. The drive-up window is open 8:30 a.m. to 4:00 p.m. on Monday through Thursday and 8:30 a.m. to 4:30 p.m. on Friday. The bank's current hours reflect a change since the previous evaluation. On April 19, 2010, the bank began offering extended hours to its customers. Bank management indicated it made the change to better meet the needs of its customers. The bank's current office hours are appropriate for the communities the bank serves. The bank has not opened or closed any offices since the previous evaluation.

MSB operates one automated teller machine (ATM), which is located at the bank. In addition, MSB provides Internet banking services. Customers enrolled in Internet banking can view loan and deposit product information, access account information, transfer funds, and make loan payments. MSB also offers its customers an online bill payment feature as well as e-statements. E-statements are a new service since the previous evaluation. The bank does not offer online applications for credit or deposit products.

Loan portfolio. As of the December 31, 2011, Report of Condition (ROC), the bank's total assets are $72.4 million, and it has a loan portfolio of $29.7 million. Agricultural, commercial, consumer, and residential real estate loans represent 84.9%, 9.5%, 4.5%, and 0.9% of gross loans, respectively. All other loans represent less than 1.0% of the loan portfolio. Since the previous evaluation, the loan portfolio increased by 15.0%, and the bank's assets increased by 47.1%. Agricultural loans have increased by approximately 21.9%; all other loan products have decreased, with consumer loans having the largest decrease at 30.9%.

Credit products. MSB is primarily an agricultural lender and offers several loan types to serve the needs of local agricultural borrowers. It also offers a variety of commercial and consumer loan products to serve the needs of businesses and consumers in its assessment area. Agricultural and commercial products include operating lines of credit and term loans, as well as real estate secured loans. MSB also participates in Small Business Administration and Farm Service Agency loan programs. MSB offers secured and unsecured closed-end consumer installment loans. Since the previous evaluation, the bank discontinued offering residential real estate loans; however, it refers interested customers to another creditor and assists them during the application process. The bank offers this service to its customers so that it may continue to meet the residential real estate loan needs in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

Assessment area. For purposes of CRA, the bank has defined its assessment area as Sheridan County, Montana. Sheridan County is in the northeastern corner of the state and borders on Canada to the north and North Dakota to the east. The bank's assessment area has not changed since the previous evaluation. According to 2000 U.S. Census data, Sheridan County consists of four census tracts: one low income and three middle income. There are no moderate- or upper-income census tracts in the assessment area. The three middle-income census tracts in the bank's assessment area have been designated as distressed and underserved. These tracts are classified as underserved and distressed because of the rural and remote nature of the tracts and the overall population loss based on U.S. Census estimates.

Table 2 contains demographic information about the bank's assessment area based on 2000 census data and 2010 Dun & Bradstreet data.

TABLE 2
Assessment Area Demographics

	Tract Distribution		*Families by Tract Income*		*Families < Poverty Level as % of Families by Tract*		*Families by Family Income*	
Income Categories	*#*	*%*	*#*	*%*	*#*	*%*	*#*	*%*
Low Income	1	25.0	1	0.1	1	100.0	230	20.1
Moderate Income	0	0.0	0	0.0	0	0.0	258	22.5
Middle Income	3	75.0	1,145	99.9	120	10.5	288	25.1
Upper Income	0	0.0	0	0.0	0	0.0	370	32.3
Total Assessment Area	**4**	**100.0**	**1,146**	**100.0**	**121**	**10.6**	**1,146**	**100.0**

	Housing Units by Tract	*Housing Types by Tract*						
		Owner-Occupied			*Rental*		*Vacant*	
Income Categories		*#*	*%*	*%*	*#*	*%*	*#*	*%*
Low Income	3	2	0.1	66.7	0	0.0	1	33.3
Moderate Income	0	0	0.0	0.0	0	0.0	0	0.0
Middle Income	2,164	1,393	99.9	64.4	346	16.0	425	19.6
Upper Income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	**2,167**	**1,395**	**100.0**	**64.4**	**346**	**16.0**	**426**	**19.7**

	Total Businesses by Tract		*Businesses by Tract and Revenue Size*					
			≤ $1 Million		*> $1 Million*		*Revenue Not Reported*	
Income Categories	*#*	*%*	*#*	*%*	*#*	*%*	*#*	*%*
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	280	100.0	258	100.0	11	100.0	11	100.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	**280**	**100.0**	**258**	**100.0**	**11**	**100.0**	**11**	**100.0**
Percentage of Total Businesses:				**92.1**		**3.9**		**3.9**

TABLE 2 Assessment Area Demographics								
	Total Farms by Tract		Farms by Tract and Revenue Size					
			≤ $1 Million		> $1 Million		Revenue Not Reported	
Income Categories	#	%	#	%	#	%	#	%
Low Income	1	0.7	1	0.7	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	153	99.4	152	99.3	0	0.0	0	0.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	**154**	**100.0**	**153**	**100.0**	**0**	**0.0**	**1**	**0.0**
Percentage of Total Farms:				**99.4**		**0.0**		**0.6**

A small portion of the bank's assessment area, specifically census tracts 9401 and 9402, is located within the boundaries of the Fort Peck Indian Reservation. This area is sparsely populated and is mainly agricultural land.

Population. The 2010 census data indicate there has been an overall decrease in population for the assessment area. According to 2000 census data, the population of the bank's assessment area was 4,105, and the population of Plentywood was 2,061. The 2010 census data indicate that the population for the assessment area is 3,384, which is a 17.6% decrease. The 2010 census data indicate the population of Plentywood is 1,734, which is a 15.9% decrease. Bank management indicated that the population is aging, although the recent oil boom is leading younger people to move into or return to the area.

Income. For purposes of classifying borrower incomes, this evaluation uses the Department of Housing and Urban Development estimated median family income. For borrowers in the nonmetropolitan areas of Montana, this figure is $55,900 for 2011. For purposes of classifying census tracts by income level, the evaluation relies on the 2000 census median family income of $39,050 for the nonmetropolitan areas of Montana.

Economy. According to community contacts and bank management, economic conditions in Sheridan County have improved since the previous evaluation and have been stronger than the national economy. The local economy is significantly tied to the agricultural industry and is greatly affected by the recent increase in oil production in the area. Sheridan County is located within the Bakken Formation, a vast oil and natural gas reserve in western North Dakota and eastern Montana.

Major crops in the area continue to be grains, such as durum, winter, and spring wheat, as well as lentils. A few local agricultural producers also raise livestock. Drought conditions do not appear to be a concern for local farming operations during 2011 and 2012. One community contact stated that there was an excess of moisture in the soil during the 2010–2011 planting season; therefore, many farmers chose not to plant and claimed insurance funds. Bank management and a community contact indicated that commodity prices have been good during the past several years; prices are expected to remain good in the near future. Input costs have also increased (e.g., fertilizer, equipment). Despite the increase in input costs, a community contact stated that agricultural producers have been profitable.

According to a community contact, another reason that local farmers' financial performance has been good is the increase in land values from the area's oil production. The contact stated that some local farmers own the mineral rights to their property and benefit directly from the oil boom. Others are benefiting by either leasing their land to the oil companies for drilling purposes or leasing their land to other farming operations for agricultural use. The community contact stated that while the increase in land values has been beneficial to current landowners, it has been a significant obstacle to new farmers attempting to enter the industry. It also has lowered the need for loans because farmers have cash on hand to finance current operating expenses.

As mentioned, the oil industry has had a significant effect on the local economy. Wages in the area have increased because the oil industry pays higher wages to its employees, and local employers must increase their wages to retain employees. A community contact indicated that only a few jobs in the area pay minimum wage; most pay more. The increase in the number of available jobs has lowered the unemployment rate in the area and added to wage increases. Bank management stated that anyone who is able and willing is working and that some employers are having a difficult time finding people to fill open positions. According to the Bureau of Labor Statistics, the preliminary nonseasonally adjusted unemployment rate for Sheridan County was 3.5% in December 2011; the rate for the state of Montana was 6.7%, and the national rate was 8.3% for the same period. Bank management stated that the unemployment rate in Plentywood is below 3.0%. In addition to the oil industry's impact on overall wages and the unemployment rate, it is increasing personal incomes of those residents who are receiving oil royalties.

In addition to the agriculture and oil industries, other major employers in the area include the medical facility; school district; county government offices; U.S. Department of Homeland Security; U.S. Border Patrol; TAQA North, Ltd., Calgary, Alberta, Canada; Diamond B Oilfield Trucking, Inc.; and Northern Oilfield Services, Inc., Plentywood. Bank management mentioned that some farming operations are hiring workers, although it is difficult for them to compete with the high wages paid by companies involved in the oil industry. According to bank management and a community contact, nonagricultural industries are important for the area because family members often work off the farm for benefits or additional income.

Housing. Housing has become an issue in Sheridan County. According to bank management and community contacts, it has become difficult for people to find housing. Some new housing has been built, but the houses are sold very quickly. Housing prices have also increased because of the increase in demand. The few homes that are offered for sale sell very quickly, typically at a premium price. According to a contact, rents are also increasing. The community contact indicated that some homes are renting for $4,000 per month. The contact also stated that the price of housing in the area is having a negative affect for some local residents who are not directly benefiting from the oil boom and find it difficult to find affordable housing in Plentywood.

Local financial institutions. The banking environment in which the bank operates is very competitive. There are several regional financial institutions and finance companies as well as a specialized agricultural lender and a credit union operating in the bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Several factors support the bank's satisfactory rating. The bank's lending to borrowers of different income levels and to farms of different sizes is good. The geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending patterns. The bank's net loan-to-deposit ratio is reasonable given the area in which the bank operates, and the bank extended a majority of loans to borrowers inside the bank's assessment area.

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

The bank's lending to farms of different sizes and individuals of different income levels within its assessment area is good.

Small farm lending. The bank's lending to small farms is good. Table 3 details the bank's small farm lending in the assessment area.

TABLE 3 Small Farm Lending				
Small Farm Originations	***≤ $100,000***	***> $100,000 to ≤ $250,000***	***> $250,000 to ≤ $500,000***	***Total Originations***
Percentage of Small Farm Loans	71.3	19.5	9.2	100.0
Percentage of Loans to Farms with Revenues of $1 Million or Less	76.3	16.3	7.5	92.0

MSB originated 92.0% of its small farm loans to operations with gross annual revenues of $1 million or less, which is lower than the demographic data. According to 2010 Dun & Bradstreet data, 99.4% of farms in the assessment area have gross annual revenues of $1 million or less. While the bank's lending is slightly lower than the demographic data, it is reasonable given the changes in economic conditions. The information used for comparison is based on 2010 data. Bank management indicated that farming operations are more profitable because of increased commodity prices and increased land values. Some operations have gross revenues over $1 million, but this information may not be reflected in the 2010 data. The bank's lending to small farms at this evaluation is slightly lower than at the previous evaluation, when the bank extended 100.0% of small farm loans to operations with gross annual revenues of $1 million or less. The bank's current lending is good given the competitive market in which the bank operates and the general improvement in economic conditions for farming operations. The competition in the area includes two larger regional banks, finance companies including a specialized agricultural lender, and a credit union. Bank management and community contacts also explained that some small farms may be able to self-finance given oil income, increased land values, and increased commodity prices.

The table also indicates that the bank originated 76.3% of the small farm loans for amounts of $100,000 or less to farms with gross annual revenues of $1 million or less, indicating a willingness to meet the credit needs of small entities. While at the previous evaluation this figure was 94.6%, the bank's level of small-dollar lending is reasonable given the change in economic conditions. Bank management indicated that input costs are increasing, which leads to higher loan amounts for those farms needing to borrow. In addition, some farming operations are expanding and, therefore, need larger loans.

Consumer lending. The bank's lending to low- and moderate-income borrowers is very good. MSB extended 44.2% of its loans to low- and moderate-income borrowers, which exceeds the total percentage of households (43.2%) in the assessment area classified as low and moderate income. While the bank's lending to low-income borrowers is lower than the demographic data, this is reasonable given the general changes to the economic conditions of the area, which is not reflected in the 2000 census data. As indicated by bank management and community contacts, the oil boom has contributed to an increase in wages and job opportunities in the area; therefore, personal incomes have increased. Bank management commented that the changes in economic conditions have led to a decrease in families and households that would be classified as low and moderate income. The bank's lending to moderate-income borrowers is very good compared to 2000 demographic information. Table 4 shows the bank's lending to borrowers of different income categories.

TABLE 4 Distribution of Loans in the Assessment Area by Borrower Income Levels*										
	Low Income		*Moderate Income*		*Middle Income*		*Upper Income*		*Unknown Income*	
	#	$	#	$	#	$	#	$	#	$
Consumer	18.6	9.2	25.6	11.1	25.6	36.5	14.0	10.4	16.3	32.8
Percentage of Households by Income Level**	23.3		19.9		22.7		34.2		0.0	
*Income level is determined based on the 2011 median family income of $55,900 for nonmetropolitan areas of Montana. **According to 2000 census data.										

The bank's overall level of lending to low- and moderate-income borrowers is slightly lower than the level during the previous evaluation, which was 45.7%. This decline is likely due to a couple of reasons according to bank management. First, competition in the assessment area is high and has increased since the previous evaluation because of decreased loan demand. Second, the improvement in economic conditions has led to a general increase in personal incomes.

The bank originated 21.0% of the consumer loans for amounts of $3,000 or less. Of these loans, the bank originated 87.5% to low- and moderate-income borrowers. Bank management stated there is no minimum consumer loan amount. The bank offers a variety of consumer loans products, including a special unsecured holiday loan program. Its approval of requests for small-dollar loans indicates the bank's willingness to serve the credit needs of low- and moderate-income borrowers.

Overall, the bank's lending to small farms of different sizes and individuals of different income levels in the assessment area is good given the bank's size and the performance context.

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 bank's assessment area includes one low-income tract. The assessment area also includes three middle-income census tracts.

Table 5 shows the distribution of loans in the assessment area by loan type.

TABLE 5 Geographic Distribution of Loans in the Assessment Area by Census Tract Income Level*				
	Low Income		*Middle Income*	
Loan Type	#	#	$	#
Consumer	0.0%	0.0%	100.0%	100.0%
Small Farm	0.0%	0.0%	100.0%	100.0%
Demographic Data				
Percentage of Families	0.1		99.9	
Percentage of Small Farms	0.7		99.3	
*Income classification of census tracts based on 2000 median family income.				

The bank made loans in each census tract except the low-income census tract. The lack of lending in this census tract is reasonable because the tract has only five residents (according to 2000 census data). According to the 2000 census data, 0.7% of small farms are located in this census tract. In addition, this census tract is located in the far southwestern corner of the bank's assessment area. The bank stated that much of the land in this area is held by individuals who may live at another location but farm the land.

The bank originated 100.0% of its loans in middle-income census tracts. The bank originated all loan types in each middle-income census tract. The bank made slightly more loans, 60.0%, to borrowers and farms in census tract 902. This is reasonable because the bank's office is in this census tract. Bank management did not identify any concentrations of low- or moderate-income families in the assessment area. Overall, the geographic dispersion and distribution of the bank's small farm and consumer lending throughout the assessment area are reasonable.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable given the bank's size and financial condition, the credit needs of the assessment area, and competition from local financial institutions. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 42.0% to 65.2%. The bank's net loan-to-deposit ratio fluctuates seasonally due to credit demands in the assessment area, since the economy is predominantly agriculturally based. The bank's quarterly average net loan-to-deposit ratio of 52.2% is lower than the quarterly average net loan-to-deposit ratio of 62.1% at the last evaluation. The decrease appears to be attributable to the changes in the local economy. Bank management indicated that loan demand is low because of the increase in overall wealth of residents and agricultural producers in the area. In contrast to the decreased loan demand, the bank's deposits have increased 27.1% in the past two years. Since the previous evaluation, there has been an influx of funds into the economy because of higher agricultural prices, the expansion of international border controls, and the recent oil boom.

The bank's December 31, 2011, net loan-to-deposit ratio of 44.5% is also lower than the bank's national peer group, which had a net loan-to-deposit ratio of 62.6%, according to the December 31, 2011, Uniform Bank Performance Report. The bank's quarterly average net loan-to-deposit ratio is lower than its national peer group's quarterly average net loan-to-deposit ratio of 68.9% for the 20-quarter period since the last evaluation. The bank's national peer group is defined as all insured commercial banks having assets between $50 million and $100 million, with two or fewer full-service banking offices and not located in a metropolitan statistical area.

The bank's quarterly average net loan-to-deposit ratio is slightly lower than the competitor financial institutions operating in the area, as shown in Table 6.

TABLE 6
20-Quarter Average Net Loan-to-Deposit Ratio

Bank Name and Location	***Assets as of December 31, 2011 (in thousands)***	***Average Net Loan-to-Deposit Ratio***
Montana State Bank, Plentywood, Montana	$ 72,369	52.2%
Western Bank of Wolf Point, Wolf Point, Montana	$ 76,291	53.9%
1st Bank, Sidney, Montana	$134,076	67.5%
Valley Bank Glasgow, Glasgow, Montana	$ 35,674	68.2%

The bank is an active lender in a competitive market. Bank management indicated that competition in the area is strong; the bank considers two large regional banks to be its main competitors. Several other finance companies and institutions, including a specialized agricultural lender and a credit union, also operate within the bank's assessment area. A deposit market share report of institutions insured by the

Federal Deposit Insurance Corporation reveals that the bank's market share is 30.1% in Sheridan County, and it ranks second. The institution that ranks first has 53.6% of the deposits in the county. The decline in demand for credit has increased competition during the evaluation period.

Overall, the bank's net loan-to-deposit ratio is reasonable given the bank's asset size, financial condition, and level of lending activity. The net loan-to-deposit ratio demonstrates the bank's willingness to meet the credit needs in the assessment area. In addition, community contacts did not identify any unmet credit needs in the area.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending in the assessment area is very good. The bank originated a majority of its loans within the assessment area: 80.7% of the loans by number and 83.4% of loans by dollar amount. The bank extends loans outside of its assessment area to maintain existing long-term relationships and to meet the credit requests of borrowers in areas adjacent to the assessment area. Table 7 details the bank's lending activity by loan type inside and outside the bank's assessment area.

TABLE 7
Distribution of Loans Inside and Outside the Assessment Areas

	Inside				***Outside***			
Loan Category	***#***	***%***	***$(000s)***	***%***	***#***	***%***	***$(000s)***	***%***
Small Farm	87	82.1	7,320	83.8	19	17.9	1,414	16.2
Consumer	43	78.2	439	77.6	12	21.8	127	22.4
Total	**130**	**80.7**	**7,759**	**83.4**	**31**	**19.3**	**1,541**	**16.6**

Small farm lending. The bank originated a majority of its small farm loans within its assessment area, specifically, 82.1% by number of loans and 83.8% by dollar amount of loans. The level of lending inside the assessment area for small farm loans during this evaluation period is slightly higher than the level at the last evaluation. The bank's level of lending to small farms at the last evaluation was 78.9% by number of loans and 79.9% by dollar amount of loans.

Consumer lending. The bank originated a majority of consumer loans within its assessment area, specifically, 78.2% by number of loans and 77.6% by dollar amount of loans. Competition in the area is strong. In addition, the bank indicated it has customers that leave the area but maintain a relationship with the bank. The bank also has several long-term customers who live in neighboring Daniels County. Overall, the bank's level of consumer lending inside the assessment area is good.

Given the percentage of consumer and small farm loans inside the bank's assessment area, the concentration of loans in the assessment area is very good.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

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

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.)