

## **PUBLIC DISCLOSURE**

August 18, 2003

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

First Valley Bank  
P.O. Box 720  
Seeley Lake, MT 59868  
RSSD 656153

**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 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."

First Valley Bank's satisfactory rating is based on several factors.

- First, the bank lends to borrowers of different income levels and to businesses of different sizes. Based on the statistical sample reviewed by examiners, the bank originated the majority of its consumer loans to low- and moderate-income borrowers. Similarly, the bank originated all of its small business loans to businesses with gross annual revenues of \$1 million or less.
- Second, the bank's net loan-to-deposit ratio represents a reasonable level of lending.
- Third, based on the statistical sample reviewed by examiners, the bank's geographic distribution of loans is reasonable given the bank's assessment area.
- Finally, based on the statistical sample reviewed by examiners, the bank originated most of its loans in the assessment area.

## DESCRIPTION OF INSTITUTION

*Previous Community Reinvestment Act ("CRA") rating.* The bank continues to meet the credit needs of the residents and businesses in its assessment area. The bank received a satisfactory CRA rating at its previous evaluation dated June 7, 1999.

*Offices.* First Valley Bank is a full-service bank located in Seeley Lake, which is approximately 55 miles northeast of Missoula in northwestern Montana. The bank does not operate any automated teller machines ("ATM"); however, it has a contractual agreement that allows First Valley Bank customers to use the cash-dispensing ATM located in Seeley Lake's grocery store without incurring any fees. The lobby hours for the bank are 9:30 a.m. to 4:00 p.m. Monday through Thursday and 9:30 a.m. to 5:00 p.m. Friday. The drive-up facility is open 8:00 a.m. to 5:00 p.m. Monday through Friday. These hours have not changed since the previous evaluation. The bank also began offering a 24-hour telephone banking product, TeleServ, in early 2001.

*Loan portfolio.* According to the June 30, 2003, Report of Condition, the bank's assets totaled approximately \$31 million, with a loan portfolio of approximately \$22 million. Commercial loans represent the largest portion of the bank's loan portfolio at 68%. The rest of the portfolio is approximately 21% residential real estate loans, 10% consumer loans, and 1% agricultural loans. The composition of the loan portfolio has remained relatively stable since the previous CRA evaluation.

*Credit products.* The bank offers a variety of loan products to fulfill the credit needs of the residents and businesses within its assessment area. The bank has not introduced any new loan products since the last evaluation. The bank continues to originate consumer, residential real estate, and commercial loans. In addition to conventional loan products, the bank extends Small Business Administration loans. The bank also originates loans secured by borrower-leased properties which are owned by the State of Montana. The bank also continues to refer residential real estate loan applicants to secondary market lenders.

## DESCRIPTION OF FIRST VALLEY BANK'S ASSESSMENT AREA

*Assessment area.* The bank has defined its assessment area as census tracts 14 and 17 in Missoula County. The bank is located in census tract 17. Both of the census tracts are classified as middle income. The assessment area does not include any low-, moderate-, or upper-income census tracts. The assessment area does not include a Native American reservation.

The assessment area is located within the Rocky Mountains and is fringed by three national wilderness areas: the Mission Mountain Range to the west, the Bob Marshall Wilderness Area to the east, and the Rattlesnake Wilderness Area to the southwest. The assessment area includes the following small towns: Seeley Lake, Condon, and Potomac, Montana. Seeley Lake is a small, rural, unincorporated town. The bank's office is located within the Missoula metropolitan statistical area ("MSA"). Because of its size and location, the bank has not included the entire Missoula MSA in its assessment area. The bank is exempt from the Home Mortgage Disclosure Act because its assets are below the \$32 million threshold.

The bank's assessment area changed since the last CRA evaluation. Previously the bank's assessment area included a portion of the Flathead Indian Reservation and Powell County. Bank management redefined the bank's assessment area and excluded Powell County because the bank makes very few loans in Powell County. The reason is that Powell County is better served by financial institutions that are geographically closer to its residents.

The boundaries of the census tracts in Missoula County changed as a result of the 2000 census. A new census tract, 9407, was created. The new tract includes areas that were part of the bank's defined assessment area at the previous evaluation and is classified as middle income. This tract includes the southern portion of the Flathead Indian Reservation. The bank has not included the new tract in its assessment area because it is geographically separated from the rest of the assessment area by a mountain range. According to bank management, road access between Seeley Lake and census tract 9407 is limited to logging routes, which are generally closed during the winter. Because of the geographic limitations, few residents in this census tract obtain financial services from the bank. There are several financial institutions that are more accessible to the residents of this census tract.

*Population.* According to 2000 U.S. Census Bureau data, the population of the Seeley Lake area is 3,543. The population increased approximately 40% in comparison to the 1990 U.S. Census Bureau data. According to 2000 U.S. Census Bureau data, the population of the assessment area is 9,782 and the population of Missoula County is 95,802.

*Income.* For purposes of classifying borrowers' incomes, this evaluation used the U.S. Department of Housing and Urban Development's estimated 2003 median family income for the Missoula MSA. This figure is \$48,800. For purposes of classifying geography income levels, this evaluation used the 2000 U.S. Census Bureau median family income for the Missoula MSA. This figure is \$44,865.

*Economy.* According to bank management and the community contact, economic conditions in the assessment area remain relatively stable, although the area faces several challenges. First, the population in the area is aging. Retirees from other states and other areas of Montana are moving into the area. Recent growth in the community is related to incoming retirees. People from outside the area are building vacation and summer homes in Seeley Lake. Younger people leave the area or commute to Missoula to pursue career opportunities. Missoula also offers more affordable housing options.

Bank management and the community contact stated that unemployment levels have been stable over the past few years. According to 2000 U.S. Census Bureau data, the unemployment rate in the assessment area is 4.4% and 6.1% in Missoula County. Primary employers in the assessment area are a logging company, the school system, a grocery store, a convenience store, and a resort. People also commute from Seeley Lake to Missoula for jobs and vice versa. Local wages have remained stable but are still fairly low. Wages in the area are low because almost all of the local jobs are service jobs with few or no benefits. Also, individuals employed in seasonal jobs may only work eight or nine months out of the year. According to the contact, most families have two wage earners because it would be difficult for one person to financially support the family.

Tourism and logging are the most important segments of the economy; therefore, the economy is highly dependent on the weather. The summer season, July through September, is the most profitable tourist season; however, a number of snowmobile trails bring in tourists during the winter season. The lumber mill continues to be the largest employer in Seeley Lake. According to bank management, employees of the lumber mill earn an average of \$11 an hour during the operating season. The lumber mill remains profitable but struggles with several issues. First, it is a challenge for the mill to get lumber contracts affordable enough to allow for profits when selling the lumber. In order to get affordable lumber contracts, the lumber mill must present bids on land to the government or private landowners. Second, the lumber mill must compete with the prices of Canadian lumber; however, within the past few years, market prices have been trending in the favor of American lumber. Third, the logging industry faces challenges from forest fires. In 2000, logging was shut down completely for a period of time due to numerous fires. According to the community contact, the industry was affected but recovered fairly

quickly. At the time of the evaluation, several forest fires were burning in the vicinity of Seeley Lake. It is unclear how that will affect the logging industry in the months to come.

According to the community contact, the economy is saturated with small businesses and there is limited opportunity for new growth. The area has an ideal number of businesses that can be profitable and supported by the community. For example, the community could not support another grocery store or convenience store because existing stores meet the residents' needs and demands. Also, businesses are limited to filling existing empty buildings or buildings that become unoccupied. Missoula County has limited permits for septic systems; therefore, businesses are generally unable to build new structures.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. Table 1 illustrates the bank's loan activity between January 2003 and June 2003.

<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>%</i>	<i>Total Amount of Loans</i>	<i>%</i>
Consumer	67	44%	\$ 1,154,190	13%
Small Business	67	44%	\$ 5,798,850	66%
Residential Real Estate	20	12%	\$ 1,876,488	21%
Total	154	100%	\$ 8,829,528	100%

Given the relatively high number of consumer and small business loans originated in 2003, the bank's CRA evaluation is based on consumer and small business lending. The analysis on the following pages is based on a statistical sample of consumer and small business loans originated in the six-month period between January 2003 and June 2003. Examiners reviewed 50 consumer loans and 50 small business loans.

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

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

In assigning the overall rating, the greatest weight was placed on the bank's level of lending to borrowers of different income levels and to entities of different sizes.

### LOAN-TO-DEPOSIT RATIO ANALYSIS

To gain an understanding of the bank's lending activity, examiners look at the net loan-to-deposit ratio of the bank and compare this ratio to the ratios of other similarly situated banks in the region. The net loan-to-deposit ratios help the examiners understand the bank's lending activity and financial condition of the bank and the loan demands of the area.

Given the bank's asset size and financial condition and the assessment area's credit needs, the bank's net loan-to-deposit ratio is satisfactory. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio ranged from 78% to 96% over 16 quarters. For the past 16 quarters, the bank's average net loan-to-deposit ratio was 88%. The net loan-to-deposit ratio fluctuates with the seasonal needs of its logging customers and the tourism industry. The bank's quarterly average net loan-to-deposit ratio compares well with local competitors. See Table 2 for the 16-quarter average net loan-to-deposit ratios for the bank and one of its local competitors.

<i>Name and Location</i>	<i>Average Assets for Period (in millions)</i>	<i>Net Loan-to-Deposit Ratio</i>
First Valley Bank, Seeley Lake, Montana	\$22.8	88%
Community Bank Missoula, Missoula, Montana	\$43.0	77%

The bank also compares well with its national peer group. The bank's net loan-to-deposit ratio was 78% and its national peer group's net loan-to-deposit ratio was 69%, according to the June 30, 2003, Uniform Bank Performance Report. The bank's peer group includes all insured commercial banks having assets between \$25 million and \$50 million with one banking office and located in a metropolitan area.

Overall, the bank's net loan-to-deposit ratio is reasonable and indicates that the bank is an active lender.

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

The CRA emphasizes the importance of banks serving the convenience and needs of the individuals and businesses inside their assessment areas. By extending credit inside their assessment areas, banks fulfill a financial need of the community. During the CRA evaluation, examiners reviewed the number and dollar amount of loans originated inside the bank's assessment area.

Overall, the bank's lending activity in the assessment area is reasonable. A review of the statistical sample of consumer and small business loans shows that the bank originates most of its loans to residents and entities in the assessment area. See Table 3 for the percentage of small business and consumer loans originated in the assessment area.

<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>Total Amount of Loans</i>
Consumer	84%	78%
Small Business	80%	62%

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

In establishing CRA, Congress sought to encourage banks to extend credit to low- and moderate-income geographies and to low- and moderate-income persons, consistent with safe and sound banking

operations. Examiners consider the extent to which banks extend credit to low- and moderate-income persons and to businesses of varied sizes.

The bank's level of lending to low- and moderate-income borrowers and businesses of different sizes is strong. Table 4 reflects the percentages of consumer loans made to borrowers of different income levels in the sample with income information.

<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$	#	\$
Consumer	52%	17%	26%	19%	19%	48%	2%	16%
Percentage of Families in Assessment Area**	18%		21%		24%		37%	
*Based on Missoula MSA's estimated median family income of \$48,800 for 2003.								
**According to 2000 census data.								

*Consumer lending.* The bank's record of lending to low- and moderate-income borrowers is very good. The bank's level of lending to borrowers in these income categories exceeds the percentage of low- and moderate-income families in the assessment area.

The jobs available in the area help to explain the bank's level of lending to low- and moderate-income borrowers. First, according to bank management, many bank customers are employees of the lumber mill. These employees earn an average of \$11 an hour during the operating season. Also, many bank customers work in service-related industries. Service jobs typically pay minimum wage with few or no benefits.

The bank's level of lending to low- and moderate-income borrowers shows the bank's responsiveness to meeting the credit needs of the residents of the assessment area. Also, no unmet credit needs were identified during the evaluation. Overall, the bank's lending to low- and moderate-income borrowers is strong.

*Small business lending.* The bank's lending to small businesses in its assessment area is strong. Refer to the glossary in Appendix A for definitions corresponding to small business lending. The bank originated 100% of the small business loans in the sample to businesses with gross annual revenues of \$1 million or less. See Table 5 for more information.

<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	80%	18%	2%	100%
Percentage of Loans to Businesses With Revenues $\leq$ \$1 Million	80%	18%	2%	100%

The bank originated the majority of its small business loans for amounts of \$100,000 or less. Based on information from the sample, the bank's lending to businesses of different sizes is very good.



Overall, the bank's lending to individuals of different income levels and to businesses of different sizes is strong. The bank originated a significant majority of its consumer loans to low- and moderate-income borrowers. In addition, the bank originated the majority of its small business loans for amounts of \$100,000 or less. The bank also originated all of the small business loans to businesses with revenues of \$1 million or less. Accordingly, the bank demonstrates excellent responsiveness to meeting the credit needs of all residents in its assessment area, particularly the consumer credit needs of low- and moderate-income people.

#### GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution and dispersion of the bank's loans in the assessment area are reasonable and do not reveal any unexplained gaps in lending patterns. As previously stated, the bank's assessment area consists solely of middle-income census tracts. Discussions with bank management and the community contact did not reveal any significant concentrations of low- and/or moderate-income families in any of the geographies in the assessment area. Therefore, further analysis of the bank's lending in geographies of different income levels is not meaningful.

The loan sample indicates that the bank actively originates loans in the census tracts in its assessment area with the exception of census tract 14. According to bank management, the residents and small businesses located in census tract 14 are served by financial institutions that are geographically closer. This is reasonable considering that the bank is located in census tract 17 and the numerous financial institutions located in and around census tract 14. As such, the geographic distribution and dispersion of sampled loans are satisfactory.

#### GENERAL

The bank has not received any CRA-related complaints since the previous evaluation. In addition, the evaluation did not identify any fair lending issues or concerns.

## Appendix A Glossary of Common CRA Terms

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

**Assessment Area** - The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated teller machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

**Block Numbering Areas ("BNA")** - BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

**Census Tracts** - Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

**Community Development** - Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

**Community Development Loan** - A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank):

- has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan, and
- benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

**Community Development Service** - A service that has as its primary purpose community development is related to the provision of financial services, has not been considered in the evaluation of the bank's retail banking services, benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area, and has not been claimed by other affiliated institutions.

**Consumer Loans** - Loans to individuals for household, family, and other personal expenditures. These loans do not include real estate-secured loans.

**Dun & Bradstreet Data** - Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. This data can be sorted by geographies.

**Income Level** - Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In non-MSA areas, the level is based on the statewide, non-MSA median income.

- **Low Income** - Less than 50 percent of the area median income.
- **Moderate Income** - At least 50 percent and less than 80 percent of area median income.
- **Middle Income** - At least 80 percent and less than 120 percent of the area median income.
- **Upper Income** - At least 120 percent or more of the area median income.

**Metropolitan Statistical Area (“MSA”)** - A federally designated geographical unit consisting of an urbanized area with a central city of at least 50,000 residents and a regional population of 100,000. MSAs may cross state boundaries.

**Qualified Investment** - A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Small Business** - A business with gross annual revenues of \$1 million or less.

**Small Business Loan** - A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans.”

**Small Farm** - A farm with gross annual revenues of \$1 million or less.

**Small Farm Loan** - A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers.”