

GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Q Bank, Fort Benton, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of October 7, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

Several factors support the bank's outstanding rating. First, the bank has consistently maintained a high loan-to-deposit ratio since the last evaluation. Second, based on an analysis of the bank's loans, it lends to borrowers of many different income levels and to small businesses and farms. Third, it lends to persons and businesses throughout the assessment area and actively originates loans to businesses located in the moderate-income geography in the assessment area. Fourth, it has made a majority of its loans within its assessment area. Finally, its services significantly enhance credit availability in its assessment area. For instance, it has a branch office in the only moderate-income block numbering area ("BNA") in the assessment area. There are no other banking facilities in this BNA.

The following table indicates the performance level of Q Bank, Fort Benton, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Q BANK FORT BENTON, MONTANA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	No CRA complaints were received since the previous evaluation.		

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of the communities in its assessment area effectively. The bank received an outstanding rating at its last CRA evaluation. According to the bank's June 30, 1996, Report of Condition ("ROC"), its total assets are approximately \$13.4 million. The bank's volume of net loans and deposits have increased \$2.2 million and \$2.6 million, respectively, since the previous evaluation. A significant portion of the bank's loan portfolio includes agriculture-related loans, which mirrors the agricultural nature of the local economy. According to the bank's June 30, 1996, ROC, agricultural loans comprise 64% of the bank's portfolio. The remainder of the portfolio includes 21% commercial, 9.5% real estate, 5% consumer, and .5% other loans.

The bank offers many types of loan products that serve local residents' credit needs. Its agricultural products include farm and ranch lines of credit, operating loans, term loans, and real estate mortgage loans. To supplement its conventional agricultural loan programs, the bank offers Farm Service Agency-guaranteed and -subordinated loans. Commercial customers may obtain conventional loans for start-up funds, inventory financing, and real estate purposes. The bank also offers Small Business Administration loans. In addition to its agricultural and commercial products, the bank provides a variety of consumer real estate and consumer loan products. The bank's loan products appear appropriate for its community's credit needs.

DESCRIPTION OF ASSESSMENT AREA

The bank defines its assessment area as a portion of Chouteau County, Montana, that includes two BNAs: 9715 and 9716. The bank's main office is located in Fort Benton, Montana (BNA 9715), approximately 45 miles northeast of Great Falls, Montana; its branch office is located in Geraldine, Montana (BNA 9716), approximately 30 miles southeast of Fort Benton. The bank also has an automated teller machine ("ATM") at its Fort Benton office. Based on 1990 census data, the bank's assessment area has a population of 3,818.

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

BNA 9716 is classified as moderate income, while BNA 9715 is classified as middle income. The assessment area's moderate-income BNA contains about 29% of the area's population. According to 1990 census data, the assessment area's median family income is \$25,139, while the median family income for nonmetropolitan areas in Montana is \$27,352. The assessment area has 1,465 households and 1,087 families. Approximately 13% of the assessment area's households and 12% of its families have incomes below the poverty level. The distribution of household and family income for the assessment area is summarized in the following table:

ASSESSMENT AREA POPULATION BY INCOME LEVEL

<u>Unit of Measure</u>	<u>Low Income</u>	<u>Moderate Income</u>	<u>Middle Income</u>	<u>Upper Income</u>
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Percentage of Households Compared to Median Household Income	19%	17%	24%	40%
Percentage of Families Compared to Median Family Income	18%	25%	21%	36%

Agriculture is the dominant industry in the assessment area. According to community contacts and bank employees, wheat farming and cattle ranching are the region's primary agricultural activities. Recent wheat stem sawfly infestations have had a negative effect on the region's wheat crop. However, other sectors of the economy, mainly tourism, have experienced significant growth in recent years.

Examiners contacted several members of the community as part of the bank's CRA evaluation, including a government official and school representative. Information from these contacts was used in evaluating the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done an outstanding job of meeting the credit needs in its assessment area. The criteria discussed below were reviewed in determining this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance based on its consistently high level and the bank's community development loans. Since the previous evaluation, the quarterly average of the bank's loan-to-deposit ratio is 79%. The chart on the following page, based on quarterly ROC data, shows that the bank's ratio has been consistently high since the last evaluation.

<u>DATE (In thousands)</u>	<u>NET LOANS (In thousands)</u>	<u>DEPOSITS DEPOSIT RATIO</u>	<u>NET LOAN-TO-</u>
June 30, 1996	\$10,047	\$11,632	86%
March 31, 1996	\$ 8,856	\$11,902	74%
December 31, 1995	\$ 9,235	\$11,811	78%
September 30, 1995	\$ 8,687	\$11,054	79%
June 30, 1995	\$ 8,092	\$10,751	75%
March 31, 1995	\$ 7,140	\$ 9,980	72%
December 31, 1994	\$ 7,874	\$ 9,062	87%

The chart above shows the seasonal fluctuations in the bank's loan volume as a result of the advances and paydowns on agricultural lines of credit. Loan and deposit volume has increased substantially since the last evaluation. Bank management attributes some of this growth to anticipation about the bank's expansion efforts.

As listed in its June 30, 1996, Uniform Bank Performance Report ("UBPR"), the bank's loan-to-deposit ratio was 86%, which places the bank in the 96th percentile in relation to its peer group. The following chart shows June 30, 1996, UBPR data for the subject bank and two competitors:

<u>Bank Name</u>	<u>Total Assets (In millions)</u>	<u>Loan-to-Deposit Ratio</u>
Q Bank	\$13.4	86%
Bank A	\$63.6	69%
Bank B	\$13.7	94%

The subject bank's June 30, 1996, loan-to-deposit ratio compares favorably with one competitor and is significantly above the other. The quarterly average net loan-to-deposit ratios for the bank and its competitors show a similar pattern. The bank, bank A, and bank B have the following quarterly net loan-to-deposit ratios, respectively: 79%, 67%, and 86%.

The bank made several significant community development loans since the last evaluation. First, it financed a relocation loan for a local professional whose clients principally reside in the assessment area's moderate-income BNA. Second, it financed a loan for improvements to a local medical center that serves many residents of the moderate-income BNA. Third, it provided funding for a city water project located in the moderate-income BNA. Based on its community development lending and the apparent lack of any unmet credit needs in the assessment area, the bank's loan-to-deposit ratio exceeds the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A statistical review of the loans originated by the bank in the six months preceding the evaluation reveals that a majority of its loans were made inside the assessment area. The table on the following page shows the percentage of loans within the assessment area based on total number and amount in each major loan category.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA

<u>Loan Type</u>	<u>Total Number of Loans</u>	<u>Total Amount of Loans</u>
Small Farm	73%	81%
Consumer	69%	68%

Based on the concentration of lending within the assessment area for all loan types in the sample, the bank's lending in the assessment area meets the standards for satisfactory performance.

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

The bank's level of lending to individuals of different incomes and to businesses of different sizes exceeds the standards for satisfactory performance. As mentioned previously, the bank's primary focus is agricultural and commercial lending, followed by consumer lending. The definition of a small farm or business is one with gross annual revenues of \$1 million or less. As the following table illustrates, all of the bank's agricultural and commercial borrowers in the CRA sample are small businesses or farms.

DISTRIBUTION OF LOANS BY BORROWER REVENUES

<u>Loan Type</u>	<u>Annual Revenue < \$1 million</u>	<u>Annual Revenue > \$1 million</u>
Agricultural and Commercial	100%	0%

In addition, a substantial majority of the loans for agricultural and commercial borrowers were for amounts less than or equal to \$250,000. Specifically, 99% of the agricultural and commercial loans had amounts below or equal to this amount. Furthermore, 81% of the agricultural and commercial loans had amounts less than or equal to \$100,000.

As shown on the following page, the bank made 79% of its consumer loans to low- and moderate-income borrowers. As previously discussed under the Description of Institution section, consumer loans comprise 5% of the bank's total loan portfolio. Low- and moderate-income households comprise 36% of the assessment area's population. The bank's consumer lending to low- and moderate-income individuals significantly exceeds the percentage of these individuals living in the assessment area. The remaining consumer loans are evenly distributed between the middle- and upper-income categories.

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

<u>Loan Type</u>	<u>Low Income</u>	<u>Moderate Income</u>	<u>Middle Income</u>	<u>Upper Income</u>
CONSUMER				
Total Number of Loans	67%	12%	12%	10%
Total Amount of Loans	42%	19%	15%	24%

*Income level based on Montana's 1996 nonmetropolitan median family income of \$34,700.

The bank's emphasis on agricultural and commercial lending to small businesses and farms, together with the high percentage of its consumer loans to low- and moderate-income borrowers, demonstrates a strong commitment to meeting the credit needs of all segments of the community and exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's loans are well distributed between the assessment area's moderate- and middle-income BNAs. As mentioned previously, the bank's assessment area includes one moderate- and one middle-income BNA. The following table illustrates the distribution of the bank's loans between these two BNAs.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA GEOGRAPHIES

<u>Type of Loan</u>	<u>Moderate- Income BNA</u>	<u>Middle- Income BNA</u>
Small Business and Farm:		
Percentage of Total Loans	50%	50%
Percentage of Total Loan Amounts	46%	54%
Consumer:		
Percentage of Total Loans	58%	42%
Percentage of Total Loan Amounts	54%	46%

The bank originated more than 50% of its loans to residents of the assessment area's moderate-income BNA. This level of lending is significant considering that only 29% of the assessment area's residents live in this BNA. Thus, the bank's lending in the moderate-income area exceeds the percentage of the population living in this area. The bank's distribution of loans between its assessment area's moderate- and middle-income BNAs exceeds the standards for satisfactory performance.

SERVICES

The bank has an excellent record for providing services that enhance credit availability in its assessment area. On July 1, 1996, Geraldine State Bank, Geraldine, Montana, relocated its charter to Fort Benton, Montana, and made its Geraldine office a branch, giving the newly named Q Bank two locations to serve customers. The Geraldine branch office is located in the assessment area's only moderate-income BNA. In addition, the bank's new main office in Fort Benton is located just outside the moderate-income BNA; it provides services to many moderate-income individuals who frequent this bank location.

The bank also installed a new ATM at its main office location in Fort Benton that provides after-hours banking services to many moderate-income individuals. This ATM dispenses cash only and does not accept deposits. The bank offers a new 24-hour telephone banking service for all its customers. The bank's level of services helps support its outstanding CRA rating.

GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair housing and fair lending laws and regulations. The evaluation revealed one violation of the technical aspects of Regulation B--Equal Credit Opportunity Act. Bank management promised to correct this violation promptly. In addition, the bank has not received any CRA complaints.

PUBLIC DISCLOSURE

October 7, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Q Bank
Name of Depository Institution

093004300000
Identification Number of Institution

Fort Benton, Montana
Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.