

PUBLIC DISCLOSURE

February 12, 1996

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Yellowstone Bank, Absarokee, Montana

Name of Depository Institution

093000050000

Identification Number of Institution

Absarokee, 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.

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 Yellowstone Bank, Absarokee, Montana, Absarokee, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of February 12, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

Several major factors contribute to this rating. First, the bank has continued to maintain a reasonable loan-to-deposit ratio since the previous evaluation. Second, the bank has made a significant number of its loans within its assessment area. Third, the bank has originated loans to borrowers of all income levels residing in all areas of its assessment area. Finally, the bank has a reasonable distribution of loans between geographies of different income levels.

The following table indicates the performance level of Yellowstone Bank, Absarokee, Montana, Absarokee, Montana, with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | YELLOWSTONE BANK, ABSAROKEE, 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 Incomes and to Businesses of Different Sizes | X | | |
| Geographic Distribution of Loans | | X | |
| Response to Complaints | No complaints were received since the previous evaluation | | |

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to effectively meet the credit needs of the communities in its assessment area. According to the bank's December 31, 1995, Report of Condition ("ROC"), its total assets were approximately \$14.6 million. The bank's volume of loans and deposits have remained stable since the previous evaluation. The bank's loan portfolio consists of 58% real estate, 18% agricultural, 15% consumer, and 9% commercial loans. An analysis of the ROCs for the quarters since the previous evaluation reveals little change in the loan mix, except for some seasonal variations.

The bank's only office is in Absarokee, Montana. The bank, chartered in 1963, has not opened or closed any offices since its inception. The bank's facilities allow it to provide its products and services to its entire assessment area.

The bank has tailored its retail marketing strategy to meet the varied financial needs of members of its assessment area. To help meet these needs, the bank offers a full array of products and services. The bank also offers a variety of real estate, agricultural, consumer, and commercial loans. The credit products and services offered by the bank are appropriate for a small, rural community.

DESCRIPTION OF THE ASSESSMENT AREA

The bank defines its assessment area as the southern half of Stillwater County and the northwest third of Carbon County, Montana. The bank's office is located in Absarokee, which is about 55 miles southwest of Billings, Montana. According to the 1990 census, the assessment area has a population of 6,878. The unincorporated town of Absarokee has a population of approximately 1,100. The minority population, primarily American Indians, comprises 3.1% of the total population. Overall, the population of the two counties has increased nearly 25% since the 1970 census.

CRA divides income levels into four categories: low income, moderate income, middle income, and upper income. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower's or block numbering area's ("BNA") income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income 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.

The bank's assessment area is divided into four BNAs. BNAs 9663, 9664, and 9665 of Stillwater County are designated as middle income and BNA 9655 of Carbon County is designated as moderate income. According to 1990 U.S. census data, the assessment area's median family income is \$27,527, while the median family income for the nonmetropolitan areas in Montana is \$27,352. Although the assessment area is classified as middle income, the population is concentrated in the lower- and upper-income ranges. Specifically, 20% of the area's households are classified as low income, 20% are moderate income, 16% are middle income, and 45% are upper-income. Median household income of \$21,890 is below the median family income of \$27,527. More than 13% of the households are below the poverty level.

The diverse economy in the bank's assessment area includes agriculture, mining, retail, services, and tourism. According to the 1990 census, nearly 3,200 people in the assessment area are in the labor force.

Unemployment is low at 3.5%. Bank management indicated that the unemployment figure is low because of the growth in population and business in the area and because unemployed people tend to leave the area to seek employment. The agricultural sector is primarily involved in the production of cattle, feedstuffs, and small grains. The mining sector is represented by the Stillwater Mining Company, which employs more than 470 people in the mining of platinum and palladium ore. The tourism sector is made up of many small enterprises, such as shops, restaurants, and lodging facilities. Also, following the trend in western Montana, there are many retirees building permanent and vacation homes in the assessment area. The demand for housing from the retirees and many of the mining employees has significantly increased the cost of housing. Many of the low- and moderate-income households are unable to afford housing at current price levels.

During the evaluation, a community contact was made in the assessment area. The contact indicated that the southern part of Stillwater County was growing quite rapidly and that affordable housing was needed. The contact also indicated that there were no unmet credit needs in the bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's lending levels meet the standards for satisfactory performance. According to the bank's December 31, 1995, ROC, the bank's gross loan-to-deposit ratio was 45.5%. Since June 30, 1994, the quarterly average of the bank's gross loan-to-deposit ratio has been 48.4%. The following chart, based on quarterly ROC data, shows that the bank's loan-to-deposit ratio has been consistent since the previous evaluation.

| Date | Gross loans (in thousands) | Deposits (in thousands) | Loan-to-Deposit Ratio |
|-------------------------|---------------------------------------|------------------------------------|----------------------------------|
| June 30, 1994 | \$5,636 | \$11,767 | 47.9% |
| September 30, 1994 | \$5,301 | \$11,900 | 44.6% |
| December 31, 1994 | \$5,151 | \$11,393 | 45.2% |
| March 31, 1995 | \$5,918 | \$11,272 | 52.5% |
| June 30, 1995 | \$5,935 | \$10,885 | 54.5% |
| September 30, 1995 | \$5,430 | \$11,184 | 48.6% |
| December 31, 1995 | \$5,354 | \$11,767 | 45.5% |
| Average Loan-to-Deposit | | | 48.4% |

The loan-to-deposit ratios listed above do not include a significant volume of residential real estate loans that were referred to a processing center at an affiliated bank in Billings. If these loans were included in the bank's loan-to-deposit ratios, the quarterly average would increase by a few percentage points, and the December 31, 1995, ratio would increase by several percentage points.

Another bank in the area has a higher lending level. That bank, which has total assets of about \$17 million, has an average loan-to-deposit ratio of about 62% during the same period.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

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

| PERCENTAGE OF LOANS IN THE ASSESSMENT AREA | | |
|---|------------------------------|------------------------------|
| Major Loan Product Lines | Total Number of Loans | Total Amount of Loans |
| Farm and Business | 95% | 97% |
| Consumer Loans | 94% | 87% |

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

DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA

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

A review of the distribution of loans to borrowers of different income levels shows that the bank actively provides loans to borrowers of all income levels. The income level of consumer borrowers is compared to median family income for a family of four residing outside of a metropolitan statistical area in Montana. As discussed previously, the assessment area median family income for this evaluation is \$27,527, or 100.6% of the level for statewide nonmetropolitan areas. The bank's distribution of loans by income level is shown in the following table.

| DISTRIBUTION OF LOANS BY INCOME LEVEL IN THE ASSESSMENT AREA | | | | |
|---|-------------------|------------------------|----------------------|---------------------|
| Loan Type | Low Income | Moderate Income | Middle Income | Upper Income |
| Consumer Loans: | | | | |
| Percentage of Total Loans | 37% | 15% | 27% | 22% |
| Percentage of Total Loan Amounts* | 29% | 14% | 31% | 21% |

*The Percentage of Total Loan Amounts does not total 100% because several loans in the sample were secured by savings accounts and incomes were not obtained by the bank.

Data in the table show that the bank made more than half of its consumer loans to low- and moderate-income borrowers. As noted previously, 40% of the area's households are classified as low- or moderate-income. Further, the table shows that 43% of the total amount of consumer loans were to low- and moderate-income borrowers.

The size and volume of commercial and agricultural loans appears reasonable for the bank as well. A community contact indicated that there were numerous small businesses and farms in the bank's assessment area.

Geographic Distribution of Loans

The bank's loans are adequately distributed throughout the assessment area. As previously mentioned, the bank's assessment area includes one moderate- and three middle-income BNAs. The following table illustrates the distribution of the bank's loans in the moderate- and middle-income areas.

| DISTRIBUTION OF LOANS IN ASSESSMENT AREA GEOGRAPHIES | | |
|---|----------------------------|--------------------------|
| Type of Loan | Moderate Income | Middle Income |
| Small Businesses and Farms: | | |
| Percentage of Total Loans | 11% | 89% |
| Percentage of Total Loan Amounts | 5% | 95% |
| Consumer Loans: | | |
| Percentage of Total Loans | 4% | 96% |
| Percentage of Total Loan Amounts | 2% | 98% |

The table indicates that the bank makes 11% of its small business and farm loans in the moderate-income BNA, where about 12% of the assessment area's population resides. The table also indicates that only 4% of the bank's consumer loans are to residents of the moderate-income BNA. While this appears low, it should be noted that about one-third of the households in the moderate-income BNA have incomes below the poverty level and may not qualify for loans. The bank's activity in the moderate-income area is adequate.

General

The evaluation did not reveal any violations of the substantive or technical provisions of the fair lending and fair housing laws and regulations. In addition, the bank has not received any CRA complaints since the previous evaluation.