

## **PUBLIC DISCLOSURE**

October 16, 2018

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

Valley Bank of Glasgow  
110 6th Street South  
Glasgow, Montana 59230-2333  
RSSD 1401891

**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.

Examiners evaluated the Community Reinvestment Act (CRA) performance of Valley Bank of Glasgow, Glasgow, Montana, 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 small farms and residents in its assessment area.

Several factors support the bank’s Satisfactory rating.

- Overall, the bank’s lending to farms of different sizes and borrowers of different income levels is reasonable.
- The bank’s net loan-to-deposit ratio is reasonable given the bank’s asset size and financial condition as well as the credit needs of the assessment area.
- The bank originated a majority of its loans within the assessment area.
- The geographic distribution of the bank’s loans reflects reasonable dispersion throughout the assessment area.

The bank received a Satisfactory rating at the previous CRA evaluation, conducted September 8, 2014.

**SCOPE OF EVALUATION**

The scope of the evaluation covers the bank’s major product lines by number of originations, as shown in Table 1. Examiners based the evaluation on a statistical sample of 87 consumer loans originated between July 1, 2017, and December 31, 2017; and 70 small farm loans originated between January 1, 2016, and December 31, 2017.

<b>TABLE 1<sup>1</sup></b>				
<b>Loan Originations From January 1, 2017, Through December 31, 2017</b>				
<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Construction/Land Development	1	0.3	\$ 82,735	0.5
Consumer	235	66.4	1,818,142	11.9
Residential Real Estate	24	6.8	3,089,882	20.2
Small Business (≤ \$1 million)	42	11.9	3,404,007	22.2
Small Farm (≤ \$500,000)	47	13.3	4,818,845	31.5
Agricultural (> \$500,000)	5	1.4	2,100,750	13.7
<b>Total</b>	<b>354</b>	<b>100.0</b>	<b>\$15,314,361</b>	<b>100.0</b>

Examiners analyzed the following performance criteria to determine the bank’s CRA rating:

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

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

Examiners gave the greatest weight to the lending to borrowers of different income levels and farms of different sizes. Examiners gave equal weight to the remaining criteria. Examiners weighted small farm and consumer loans equally based on loan origination volume and loan portfolio composition. The bank has not received any CRA-related complaints since the previous examination.

The evaluation is based in part on discussions with bank management and interviews with members of the community familiar with economic issues and demographic characteristics of the assessment area. Examiners used information from these sources to evaluate the bank's CRA performance.

## **DESCRIPTION OF INSTITUTION**

*Structure, Offices, and Delivery Systems.* Valley Bank of Glasgow is a full-service institution with one office located in Glasgow, Montana. The bank is one of two subsidiary banks of a two-tier holding company, consisting of Malta Banquo and Milk River Banquo (both of Malta). Milk River Banquo is the top tier in the holding company structure. The bank operates three cash-dispensing-only ATMs. One ATM is in the main office, and the other two ATMs are in local businesses in Glasgow. The bank's office hours are reasonable for the community it serves. The bank has a drive-up facility, as well as online banking and bill payment services.

*Loan Portfolio.* According to the June 30, 2018, Report of Condition, the bank's assets total \$43.8 million. The bank's \$25.4 million loan portfolio consists of 31.0% commercial, 35.4% agricultural, 23.8% residential real estate, 8.0% consumer, and 1.7% other loans. The portfolio composition is similar to the composition at the previous evaluation.

*Credit Products.* The bank offers a variety of loan products to help meet the credit needs of the farms, businesses, and consumers in the assessment area. In addition to offering conventional loan products, the bank participates in government-sponsored programs, including programs through the Farm Service Agency, U.S. Small Business Administration, U.S. Department of Agriculture Rural Development, U.S. Department of Veterans Affairs, and the Federal Housing Administration.

*Deposit Market Share.* According to the June 30, 2018, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks third out of four FDIC-insured institutions operating in Valley County, with a 14.5% market share.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area has not changed since the previous evaluation. It consists of Valley County, which is located in northeastern Montana and includes three middle-income census tracts. In 2017, all three tracts were classified as underserved.

The bank's assessment area includes a portion of the Fort Peck Indian Reservation. The western portion of the reservation extends into eastern Valley County. The tribal headquarters are in Poplar, Montana, which is in Roosevelt County. Poplar is 70 miles east of the bank. The reservation is home to the Assiniboine and Sioux tribes. A community contact estimated the tribes have approximately 13,000 members, with 6,000 living on reservation land.

Table 2 shows the demographic characteristics of the assessment area based on the 2017 Federal Financial Institutions Examination Council (FFIEC) adjusted census data<sup>2</sup> and 2017 Dun & Bradstreet data.

<b>TABLE 2</b>								
<b>Assessment Area Demographics</b>								
<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families &lt; Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	432	19.7
Moderate Income	0	0.0	0	0.0	0	0.0	419	19.1
Middle Income	3	100.0	2,188	100	185	8.5	517	23.6
Upper Income	0	0.0	0	0.0	0	0.0	820	37.5
<b>Total Assessment Area</b>	<b>3</b>	<b>100.0</b>	<b>2,188</b>	<b>100.0</b>	<b>185</b>	<b>8.5</b>	<b>2,188</b>	<b>100.0</b>
<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>			<i>Rental</i>		<i>Vacant</i>	
		#	%	%	#	%	#	%
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	4,843	2,248	100.0	46.4	1,047	21.6	1,548	32.0
Upper Income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>4,843</b>	<b>2,248</b>	<b>100.0</b>	<b>46.4</b>	<b>1,047</b>	<b>21.6</b>	<b>1,548</b>	<b>32.0</b>
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>	
			#	%	#	%	#	%
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	392	100.0	344	100.0	37	100.0	11	100.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>392</b>	<b>100.0</b>	<b>344</b>	<b>100.0</b>	<b>37</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>87.8</b>		<b>9.4</b>		<b>2.8</b>
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>	
			#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	114	100.0	114	100.0	0	0.0	0	0.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>114</b>	<b>100.0</b>	<b>114</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>100.0</b>		<b>0.0</b>		<b>0.0</b>

<sup>2</sup> The FFIEC adjusted census data is based on decennial U.S. Census data and American Community Survey five-year estimate data, and it also reflects the Office of Management and Budget’s metropolitan statistical area revisions.

*Income.* The evaluation uses the 2017 FFIEC estimated median family income to classify borrowers by income level. The estimated median family income of borrowers in the nonmetropolitan area of Montana is \$60,500. For purposes of classifying census tracts by income level, this evaluation relies on the 2017 FFIEC adjusted census data median family income for the nonmetropolitan area of Montana, which is \$54,061 for 2016 and \$59,958 for 2017.

*Population.* According to the 2017 FFIEC census data, the population of the assessment area is 7,577. A portion of the population, 10.1%, is American Indian/Not-Hispanic. By age, 22.6% of residents in Valley County are under 18 years of age, 56.2% are between 18 and 65 years of age, and 21.2% are 65 years of age or older.

*Economy.* Bank management states that the area economy is steady, with low unemployment and a recent increase in wages. The assessment area is highly dependent on the agricultural economy, which is focused on crops and livestock. The main crops are wheat, beans, lentils, and hay, while the focus in livestock is cattle. The area struggled recently with a drought, but the economy has slowly been recovering. Bank management stated that the local oil economy has helped the economy overall, but the impact has not been significant.

Major employers in Valley County include the local hospital, the school system, the railroad system, and a variety of government offices. The area is also home to several small businesses. In addition to these employers, the tribal government on the Fort Peck Indian Reservation also employs a high number of residents in the area.

Bank management indicated that the banking environment in the assessment area is competitive with other financial institutions, including credit unions and Farm Credit Services.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank’s performance in meeting the credit needs of its assessment area is rated Satisfactory. Overall, the bank’s lending to small farms and to low- and moderate-income borrowers is reasonable. The bank’s net loan-to-deposit ratio is reasonable. The bank originated a majority of its loans within its assessment area. Finally, the geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending.

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

*Small Farm Lending.* The bank’s lending to small farms is reasonable. Table 3 displays the bank’s small farm lending in the assessment area.

<b>TABLE 3</b>				
<b>Small Farm Lending</b>				
<b>Valley County Assessment Area</b>				
<i>Small Farm Loans</i>	<i>≤ \$100,000</i>	<i>&gt; \$100,000 to ≤ \$250,000</i>	<i>&gt; \$250,000 to &lt; \$500,000</i>	<i>Total Originations</i>
Percentage of All Small Farm Loans	66.7%	29.2%	4.2%	100.0%
Percentage of Loans to Farms with Revenues of \$1 Million or Less	68.2%	31.8%	0.0%	91.7%

The bank originated 91.7% of its small farm loans to farms with gross annual revenue of \$1 million or less. According to 2017 Dun & Bradstreet data, 100.0% of the farms in the assessment area are small farms. The bank’s lending is slightly below demographics. This is reasonable given the competitive environment for small farm loans in the area. Of the small farm loans to farms with revenues of \$1 million or less, 68.2% were in amounts of \$100,000 or less, which indicates a willingness to serve the credit needs of smaller entities.

*Consumer Lending.* The bank’s consumer lending to low- and moderate-income borrowers is excellent.

<b>TABLE 4</b>								
<b>Distribution of Consumer Loans by Borrower Income Level*</b>								
<b>Valley County Assessment Area</b>								
<i>Loan Type Sample</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$	#	\$
Consumer Loans	60.8%	51.0%	22.8%	20.1%	11.4%	18.7%	5.1%	10.3%
<b>Demographic Data</b>								
Percentage of Households**	25.2%		15.3%		14.9%		44.5%	
*Median family income for the assessment area was \$60,500 for 2017.								
**Based on 2017 FFIEC census data.								

As shown in Table 4, the bank extended 60.8% of its consumer loans to low-income borrowers. This significantly exceeds demographics, which show that 25.2% of households in the assessment area are low income. The bank extended 23.8% of its consumer loans to moderate-income borrowers. This also exceeds demographics, which indicate that 15.3% of households in the assessment area are moderate income.

The bank provides small-dollar loans, which help serve the needs of low- and moderate-income borrowers. Of the loans in the sample, 69.6% were for amounts of \$3,000 or less. Of these small-dollar loans, 85.5% were to low- and moderate-income borrowers. The bank offers a no-interest, minimal-fee holiday loan program for customers that benefits some low- and moderate-income individuals.

**LOAN-TO-DEPOSIT RATIO ANALYSIS**

The bank’s net loan-to-deposit ratio is reasonable, given the bank’s asset size and financial condition and the credit needs and competition in the assessment area.

As of June 30, 2018, the bank’s net loan-to-deposit ratio is 63.5%, which is on a similar level with the net loan-to-deposit ratio for the peer group, at 64.9%. The bank’s peer group includes insured commercial banks not located in a metropolitan statistical area that have assets less than \$50 million with one full-service banking office.

The bank’s average net loan-to-deposit ratio for the past 16 quarters is 78.3%, which is higher than at the previous evaluation. At the previous evaluation, the bank’s 17-quarter average net loan to deposit ratio was 67.4%. Since then, the bank’s quarterly net loan-to-deposit ratio has ranged from 63.5% to 87.5%, which reflects normal fluctuations in business.

Community contacts indicated that, overall, local financial institutions are meeting the credit needs of the area.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

Overall, the bank originated a majority of loans to borrowers within the assessment area; specifically, 84.1% by number and 66.8% by dollar amount. Table 5 shows the bank’s lending inside and outside its assessment area by loan type.

<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Small Farm	53	75.7	4,797	65.6	17	24.3	2,512	34.4
Consumer	79	90.8	349	88.8	8	9.2	44	11.2
<b>Total</b>	<b>132</b>	<b>84.1</b>	<b>5,147</b>	<b>66.8</b>	<b>25</b>	<b>15.9</b>	<b>2,556</b>	<b>33.2</b>

By number and dollar amount, small farm loans comprised the largest percentage of lending outside the assessment area. This reflects the bank’s loan participation activity in nearby counties. The bank’s percentage of loans inside the assessment area is reasonable given the competition for loans in the assessment area as well as the bank’s loan participation activity.

GEOGRAPHIC DISTRIBUTION OF LOANS

The overall geographic distribution is reasonable and does not reveal any unexplained gaps in lending. The bank has only one assessment area, encompassing all of Valley County, with three middle-income census tracts. The assessment area does not include any low- or moderate-income census tracts.

Bank management and community contacts did not identify any concentrations of low- or moderate-income families or households in the assessment area. The bank actively lends throughout the assessment area, including on the Fort Peck Indian Reservation.

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 examination 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:** An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; (4) activities that revitalize or stabilize low- or moderate-income census tracts, designated disaster areas, or distressed or underserved nonmetropolitan middle-income census tracts; or (5) Neighborhood Stabilization Program (NSP)-eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and census tracts.

**Consumer loan:** A loan to one or more individuals for household, family, or other personal expenditures. It does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Distressed nonmetropolitan middle-income census tract:** A middle-income, nonmetropolitan census tract will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20.0% or more, or (3) a population loss of 10.0% or more between the previous and most recent decennial census or a net migration loss of 5.0% or more over the 5-year period preceding the most recent census.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

**Full-scope review:** Performance is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (i.e., approved, denied, or withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

**Low income:** Individual income that is less than 50 percent of the area median income or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/assessment area.

**Metropolitan statistical area (MSA):** An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle income:** Individual income that is at least 80 percent and less than 120 percent of the area median income or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate income:** Individual income that is at least 50 percent and less than 80 percent of the area median income or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate MSA. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate MSA, the institution will receive a rating for the multistate metropolitan area.

**Small loan to business:** A loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

**Small loan to farm:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or classified as loans to finance agricultural production and other loans to farmers.

**Underserved middle-income census tract:** A middle-income, nonmetropolitan census tract will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**Upper income:** Individual income that is more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of geography.

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