

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 State Bank of Terry, Terry, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of September 30, 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 factors support the bank's satisfactory rating. First, the bank has maintained a reasonable loan-to-deposit ratio since the last evaluation. Second, a majority of the bank's loans have been originated in its assessment area. Third, the bank provides a large percentage of its agricultural and commercial loans to small businesses and farms. Finally, the bank makes the majority of its loans to residents of its assessment area's moderate-income block numbering areas ("BNA").

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

SMALL INSTITUTION ASSESSMENT CRITERIA	STATE BANK OF TERRY TERRY, 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 a variety of factors, the bank is able to meet the credit needs of its assessment area effectively. At the previous evaluation, the bank was rated satisfactory in helping to meet the credit needs of its community. The bank's only office is in Terry, Montana, a community located between Glendive and Miles City, Montana. The bank has not added or closed any offices since the previous evaluation. The bank does not have an automated teller machine.

The bank's size supports its ability to meet the credit needs of residents in its assessment area. According to its June 30, 1996, Report of Condition ("ROC"), the bank has total assets of \$36.3 million. The bank's loan portfolio consists of 84% agricultural, 7% commercial, and 9% consumer loans.

The bank offers a variety of products that serve the credit needs of the assessment area. The bank provides agricultural, commercial, and consumer loans. It does not offer direct residential real estate loans because of its limited experience with this type of product. However, the bank does refer real estate applicants to other local financial institutions that provide real estate loans.

DESCRIPTION OF STATE BANK OF TERRY'S ASSESSMENT AREA

The bank's assessment area consists of 11 BNAs in a four-county area in southeastern Montana. The assessment area includes all of Custer County (BNAs 9613 through 9617), Dawson County (BNAs 9531 through 9534), and Prairie County (BNA 9584). The assessment area also includes BNA 9540, located in the southern half of McCone County. The largest towns in the assessment area are Glendive, located in Dawson County, and Miles City, located in Custer County. The bank is located in Prairie County. According to the 1990 census, the assessment area has a total population of 24,089.

Bank management and a community contact indicated that the population of the surrounding area has remained relatively stable. The community contact also indicated that the local economy is stable and crop prices have been very good. However, beef prices have declined during the last year and remain low.

CRA divides income levels for borrowers 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, and 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 family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median family income is considered an upper-income person. BNAs and census tracts are classified using similar categories based on the level of the median family income in the geography.

Three of the 11 BNAs in the assessment area are classified as moderate income and eight are classified as middle income. The bank is located in BNA 9584, a moderate-income BNA. BNA 9532 is also classified as moderate income and covers the southern portion of Dawson County. This BNA borders Prairie County about 15 miles northeast of Terry. The third moderate-income BNA, 9614, covers the southern portion of Custer County and is approximately 35 miles from the bank. The assessment area's remaining eight middle-income BNAs are located in Custer, Dawson, and McCone counties. According to the 1990 census data, the three moderate-income BNAs have a total population of 2,405, or about 10% of the assessment area's total population.

According to 1990 census data, the assessment area's median household income

is \$21,802; its median family income is \$26,660. Based on the same census, the median family income for the nonmetropolitan areas of Montana is \$27,352, which exceeds the assessment area's median family income. According to 1990 census data, 25% of the households in the assessment area are classified as low income and 16% are classified as moderate income. Middle-income households account for 19% of the assessment area's households and upper-income households represent 40% of the total. Approximately 16% of the assessment area's households and 12% of its families have incomes below the poverty level.

Examiners contacted a government official as part of the CRA evaluation process. Information obtained from this community contact was used in evaluating the bank's CRA performance. The contact indicated that there were no unmet credit needs in the bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting the credit needs in its assessment area. The criteria detailed below were reviewed in determining this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's lending levels meet the standards for satisfactory performance. According to its June 30, 1996, ROC, the bank's net loan-to-deposit ratio was approximately 62%. The bank's quarterly average loan-to-deposit ratio since the previous evaluation is 59%. The table on the following page, based on quarterly ROC data, shows that the bank's loan-to-deposit ratio has remained steady since the previous evaluation.

Date	Net Loans (in thousands)	Deposits (in thousands)	Net Loan-to-Deposit Ratio
June 30, 1996	\$19,304	\$31,369	62%
March 31, 1996	\$17,270	\$31,407	55%
December 31, 1995	\$16,739	\$32,255	52%
September 30, 1995	\$19,223	\$30,240	64%
June 30, 1995	\$18,957	\$30,140	63%
March 31, 1995	\$17,310	\$29,711	58%

The fluctuation in the bank's loan-to-deposit ratio is due to the agricultural nature of the local economy. The bank's primary borrowers are local farmers. In the spring, the bank originates revolving lines of credit for crop production expenses. In the winter, crops are harvested and sold, resulting in the lines of credit being paid off. As such, the bank's loan-to-deposit ratio reflects these seasonal changes in lending patterns.

The bank's main competitors are located in Glendive and Miles City, Montana. The following table shows the total assets and the quarterly average loan-to-deposit ratios for the subject bank and the three local competitor banks.

Bank	Total Assets June 30, 1996	Quarterly Average Loan-to-Deposit Ratio
Subject Bank	\$ 36,286	59%
Bank A	\$110,205	50%
Bank B	\$144,494	87%
Bank C	\$ 31,279	75%

The subject bank has the third highest loan-to-deposit ratio of the four banks. In addition, according to the June 30, 1996, Uniform Bank Performance Report, the bank's loan-to-deposit ratio of 62% places it in the 48th percentile compared with peer banks. The bank's loan-to-deposit ratio compared with the competitor financial institutions is reasonable.

As previously mentioned, a community contact indicated that there were no unmet credit needs in the community. Given the size of two large competitor financial institutions and the agricultural nature of the assessment area, the bank's loan-to-deposit ratio is reasonable.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending in its assessment area exceeds standards for satisfactory performance. A review of a statistical sample of loans originated by the bank since the previous evaluation reveals that a substantial majority of its loans were made inside its assessment area. The table below reflects the percentage of the total number and dollar volume of loans by loan type originated inside the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Major Loan Product Lines	Total Number of Loans	Total Amount of Loans

Agricultural/Small Business	90%	93%
Consumer	78%	82%

As indicated in the table, the two major product categories reviewed were agricultural and small business loans and consumer loans. As previously mentioned, the bank's loan portfolio consists primarily of agricultural loans. The bank's lending percentages reflect the agricultural nature of the bank's assessment area. Given the bank's status as an agricultural lender, less significance should be placed on the fact that the bank had fewer consumer than agricultural and small business loans in its assessment area. The concentration of lending in the assessment area exceeds satisfactory performance.

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

The bank's lending to borrowers of different income levels and to businesses of different sizes meets the standards for satisfactory performance. The bank does not collect income data for its consumer loans. Accordingly, no analysis of income for such loans could be made. The bank provides almost all of its commercial and agricultural loans to small business and farm borrowers. All of the agricultural and business loans reviewed were to entities or individuals with total gross annual revenues of \$1 million or less. In addition, many of these loans had amounts under \$100,000. Specifically, 95% of these loans had amounts less than or equal to \$100,000. The remaining 5% of the loans were split almost evenly between the \$100,000 to \$250,000 loan amount category and the \$250,000 to \$1 million loan amount category. Agricultural and small business loans constitute approximately 91% of the bank's loan portfolio.

This distribution of agricultural and small business loans is consistent with the bank's asset size, legal lending limit, and the credit demand in the assessment area. The bank's level of lending to small businesses and farms meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of bank loans between assessment area geographies of different income levels exceeds the standards for satisfactory performance. As previously mentioned, the bank's assessment area includes three BNAs that are classified as moderate income and eight BNAs that are classified as middle income. The table below reflects the bank's loan penetration in the moderate- and middle-income BNAs.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL		
Loan Type	Moderate-Income BNAs	Middle-Income BNAs
<u>Agricultural/Small Business</u>		
Total Number of Loans	73%	27%
Total Dollar Amount of Loans	51%	49%
<u>Consumer</u>		
Total Number of Loans	75%	25%

Total Dollar Amount of Loans	69%	31%
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As previously mentioned, BNA 9584 encompasses Prairie County. The bank is located in this BNA. BNA 9532 encompasses the southern portion of Dawson County and borders Prairie County. BNA 9614 covers the southern portion of Custer County and is considerable distance from the bank. The population of these three moderate-income BNAs is 2,405, or 10% of the assessment area's population. The table indicates that 73% of the bank's agricultural and small business loans and 75% of its consumer loans were to individuals residing in the moderate-income BNAs. As such, the bank's loan originations in the moderate-income BNAs significantly exceed the percentage of individuals that reside in these BNAs. The fact that the bank is located in a moderate-income BNA helps explain its high level of lending in the assessment area's moderate-income BNAs. The level of the bank's lending to individuals residing in the assessment area's moderate-income BNAs significantly exceeds the standards for satisfactory performance.

GENERAL

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

PUBLIC DISCLOSURE

September 30, 1996

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

State Bank of Terry

Name of Depository Institution

09301000000

Identification Number of Institution

Terry, 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.