

PUBLIC DISCLOSURE

January 9, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Montana Bank
201 North Higgins Avenue
P.O. Box 1550
Missoula, Montana 59802
RSSD 613156

**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 Outstanding.

The Community Reinvestment Act (CRA) performance of First Montana Bank, Missoula, Montana, is rated Outstanding. Based on the bank's asset size and financial condition, the bank effectively meets the credit needs of the residents in its assessment areas. The bank's performance is enhanced by its level of community development lending and services and qualified investments.

Examiners evaluated the CRA performance of First Montana Bank using the Small Bank CRA Examination Procedures.

Several factors support the bank's Outstanding rating:

- The bank's lending to businesses of different sizes and borrowers of different income levels is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The bank's net loan-to-deposit ratio is more than reasonable given the bank's size and financial condition and the assessment areas' credit needs, and the ratio is enhanced by the bank's community development lending.
- The bank originated a substantial majority of its loans within the assessment areas.
- The bank's qualified investments, community development services, and branch and other delivery systems enhance credit availability in the bank's assessment areas.

The bank received an Outstanding rating at the previous evaluation, dated November 26, 2012. At the time, examiners evaluated the bank's performance using the Intermediate Small Bank CRA Examination Procedures.

SCOPE OF EVALUATION

Examiners evaluated the bank's CRA performance based partly on information provided by bank management and by community contacts. Examiners also reviewed economic and demographic data, competitive factors, and the size and financial condition of the bank to understand and evaluate the bank's CRA performance. The CRA evaluation covers the period from November 26, 2012, to January 9, 2018.

The bank has designated four assessment areas for CRA purposes: Anaconda/Butte, Libby/Troy/Kalispell, Missoula, and Bozeman. Based on lending data provided by the bank, the bank originated 57.9% of its loans by number in the Anaconda/Butte assessment area, 24.3% in the Libby/Troy/Kalispell assessment area, 13.7% in the Missoula assessment area, and 4.1% in the Bozeman assessment area. Based on the June 30, 2017, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, 43.0% of the bank's deposits are in the Anaconda/Butte assessment area, followed by 39.9% in the Libby/Troy/Kalispell assessment area. The majority of the bank's loans and deposits are in these two assessment areas, as are six of the bank's nine offices. Examiners conducted full-scope reviews of the Anaconda/Butte and Libby/Troy/Kalispell assessment areas and limited-scope reviews of the Missoula and Bozeman assessment areas. Detailed descriptions of the bank's assessment areas are located in their respective sections.

Examiners also contacted individuals familiar with economic and demographic characteristics in the bank's Anaconda/Butte and Libby/Troy/Kalispell assessment areas. Examiners used information obtained during these contacts to establish a performance context for the CRA evaluation. The

assessment area sections of this evaluation include specific information obtained from these community contacts. None of the contacts identified any unmet credit needs in the bank’s assessment areas.

Examiners selected small business, consumer, and Home Mortgage Disclosure Act (HMDA)-reportable loans for analysis because they represent the bank’s major product lines by total number or total dollar amount. Table 1 shows the bank’s loan activity for 2016.

TABLE 1¹				
Loan Originations From January 1, 2016, through December 31, 2016				
<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	19	2.6	\$5,035,330	10.2
Consumer	420	57.0	8,683,613	17.5
Consumer – PLOCs	13	1.8	93,000	0.2
Home Equity Lines of Credit	39	5.3	2,854,205	5.8
Residential Real Estate	25	3.7	3,333,305	7.8
HMDA	63	3.4	6,796,000	13.7
Small Business (≤ \$1 million)	151	20.5	17,009,974	34.3
Commercial (> \$1 million)	4	0.5	5,432,142	11.0
Small Farm (<=500,000)	3	0.4	359,274	0.7
Total	737	100.0	\$49,596,843	100.0

Examiners based the evaluation on statistical samples of the bank’s small business and consumer loans. The samples consist of 66 small business loans and 120 consumer loans originated between April 1, 2017, and September 30, 2017.

Examiners also analyzed the bank’s 2012, 2013, 2014, 2015, and 2016 HMDA-reportable loans, which total 344 home purchase, refinance, home improvement, and multifamily loans. The bank is required to report HMDA data because it has offices in a metropolitan statistical area (MSA). Examiners analyzed the bank’s HMDA data to understand the residential real estate mortgage market in the assessment areas and the bank’s performance in those markets. Examiners also reviewed HMDA data reported by aggregate lenders to better assess the bank’s performance relative to other HMDA lenders in the bank’s assessment areas. Examiners determined that the bank’s 2012, 2013, and 2014 HMDA lending was generally consistent with its 2015 and 2016 lending performance. The public evaluation only includes the analysis for 2015 and 2016.

Examiners analyzed the following criteria to determine the rating:

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

¹Note: Because the percentages in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0.

Of the five core criteria, examiners placed the greatest weight on the bank's lending to businesses of different sizes and to borrowers of different income levels. Examiners weighted the remaining criteria equally. By product type, examiners weighted small business and consumer loans equally and greater than HMDA loans. Examiners weighted the bank's performance in the Anaconda/Butte assessment area greater than its performance in the Libby/Troy/Kalispell assessment area, because the bank originates a majority of its loans in this assessment area. Finally, examiners did not include the bank's small business lending in the Libby/Troy/Kalispell analysis because it is not a major product for this assessment area.

The bank has not received any CRA-related complaints since the previous evaluation.

At the request of bank management, and in accordance with the Small Bank CRA Examination Procedures, examiners reviewed the bank's qualified investments, community development loans, and community development services. The bank's community development activities enhance the overall CRA rating. The evaluation period for community development activities is from November 26, 2012, to January 9, 2018.

DESCRIPTION OF INSTITUTION

Structure. First Montana Bank is headquartered in Missoula, Montana, and is wholly owned by First National Bancorp, Inc., Missoula, Montana, a one-bank holding company.

Offices and Alternative Delivery Methods. The bank operates nine full-service offices in seven cities in Montana. Since the previous evaluation, the bank changed its main office from Libby to Missoula and made the Anaconda Park office a full-service branch (previously, the bank offered only deposit services here). In addition to the main office, the bank operates a branch in Missoula, two branches in Anaconda, and one branch each in Libby, Troy, Kalispell, Butte, and Bozeman. All offices have drive-up facilities, except for the main office and one of the Anaconda branches. The Libby branch also has a walk-up window. The bank operates an ATM at each office; the Libby and Butte ATMs are deposit taking. The bank offers standard lobby hours Monday through Friday at most locations, and extended weekday and/or Saturday hours at the drive-ups. The bank also offers online and mobile banking, and customers are able to transfer funds between accounts, view current transactions, access account statements, make loan payments, and pay bills. Finally, customers can print consumer and residential real estate loan applications from the bank's website.

Loan Portfolio. According to the September 30, 2017, Report of Condition, the bank's assets total \$300.4 million. The bank's \$213.9 million loan portfolio consists of 70.0% commercial, 17.4% residential real estate, 10.3% consumer, and 1.6% agricultural loans. The overall composition of the loan portfolio remained consistent and relatively stable since the previous evaluation.

Credit Products. The bank continues to offer commercial, residential real estate, consumer, and agricultural loan products to meet the credit needs of the residents in the community. Commercial lending is the bank's primary focus. In addition to offering conventional loan products, the bank actively participates in government-sponsored programs, including the U.S. Small Business Administration (SBA), Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA), U.S. Department of Agriculture's Office of Rural Development (RD), and Montana Board of Housing.

DESCRIPTION OF ASSESSMENT AREAS

The bank has not changed its assessment areas since the previous evaluation; however, the number of census tracts changed based on 2010 U.S. Census changes, and the income classifications of some tracts

changed based on 2017 Federal Financial Institutions Examination Council (FFIEC) adjusted census data. The Anaconda/Butte assessment area consists of Deer Lodge and Silver Bow counties. The Libby/Troy/Kalispell assessment area consists of Lincoln and Flathead counties. The Missoula assessment area consists of the Missoula, MT MSA, which includes all of Missoula County. Finally, the Bozeman assessment area consists of Gallatin County. At the previous evaluation, the bank’s combined assessment areas consisted of 65 census tracts: nine moderate, 42 middle, and 14 upper income. The combined assessment areas now consist of 77 census tracts: three low, 13 moderate, 43 middle, and 18 upper income. See individual assessment area sections for detailed descriptions of the assessment areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s CRA rating is Outstanding. Overall, the bank’s lending to businesses of different sizes and to borrowers of different income levels is reasonable. The geographic distribution of loans reflects reasonable distribution and dispersion throughout the assessment areas. The bank originated a substantial majority of its loans within its assessment areas. The bank’s net loan-to-deposit ratio is more than reasonable; the bank’s community development lending supplements the bank’s lending performance. Finally, the bank’s qualified investments in the form of securities and donations, as well as its community development services, enhance credit availability in the assessment areas and the bank’s overall CRA rating.

As mentioned, examiners conducted full-scope reviews of the Anaconda/Butte and Libby/Troy/Kalispell assessment areas and limited-scope reviews of the Missoula and Bozeman assessment areas. The individual assessment area sections for the full-scope reviews include detailed discussions about the bank’s lending to businesses of different sizes and to borrowers of different income levels, as well as the geographic distribution of the bank’s loans. In addition, the individual sections for the limited-scope reviews include a summary of the bank’s lending. Examiners analyzed the comparison of lending inside and outside the assessment areas and the net loan-to-deposit ratio at the bank level, as described below.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREAS

The bank originated a substantial majority of its loans within its assessment areas; specifically, 88.7% of loans by number and 86.8% by total dollar amount. Table 2 shows the bank’s lending activity by loan type inside and outside the assessment areas.

TABLE 2								
Distribution of Loans Inside and Outside the Assessment Areas								
<i>Loan Type</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 Business	60	90.9	5,634	90.1	6	9.1	620	9.9
Consumer	103	85.8	1,716	62.8	17	14.2	1,015	37.2
HMDA ²	307	89.2	38,041	87.8	37	10.8	5,297	12.2
Total	470	88.7	45,391	86.8	60	11.3	6,932	13.2

Bank management stated that its focus is to provide loans to borrowers within the bank’s assessment areas. Some customers maintain lending relationships with the bank even though they have moved away from the area. Many of the loans originated outside of the assessment areas were in counties adjacent to

²Examiners included all five years of HMDA data in the assessment area concentration criterion.

the bank’s assessment areas. Although the percentage of consumer loan dollars extended outside the assessment areas appears high at 37.2%, three of the loans were for large amounts and account for 76.4% of these loan dollars. The bank’s lending shows its commitment to meeting credit needs within its assessment areas.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank’s net loan-to-deposit ratio is more than reasonable given its asset size, financial condition, the credit needs of the assessment areas, and the level of community development lending in the assessment areas. The bank’s September 30, 2017, net loan-to-deposit ratio of 84.1% is above the national peer group net loan-to-deposit ratio of 80.0% as of the same date. The bank’s national peer group includes all insured commercial banks with assets between \$100 million and \$300 million, with three or more full-service offices, and located in an MSA.

Since the bank’s previous evaluation, the bank’s quarterly net loan-to-deposit ratio ranged from 68.6% to 89.2%. The bank’s eight-quarter average net loan-to-deposit ratio at the previous evaluation was 72.7%. The average net loan-to-deposit ratio for the past 20 quarters is 80.1%. The bank’s 20-quarter average is comparable to that of one bank of similar asset size operating in the assessment areas and higher than that of another competitor bank operating in the assessment areas, as shown in Table 3.

<i>Bank</i>	<i>Total Assets as of September 30, 2017 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
First Montana Bank, Missoula, Montana	\$300,375	80.1%
Three Rivers Bank of Montana, Kalispell, Montana	\$141,736	75.0%
American Bank, Bozeman, Montana	\$402,662	79.8%

Bank management stated that competition in each assessment area is strong for loan products. The bank faces competition from large national banks, regional banks, credit unions, and mortgage companies. The bank’s net loan-to-deposit ratio demonstrates the bank’s willingness to fulfill credit needs throughout the assessment areas. In addition, community contacts did not identify any unmet credit needs in the assessment areas.

Finally, the bank originated two community development loans totaling \$2.1 million during the evaluation period. The loans funded projects that help revitalize and stabilize low- and moderate-income census tracts in the Missoula and Bozeman assessment areas. The level of community development lending enhances the bank’s net loan-to-deposit ratio.

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

The bank’s lending to businesses of different sizes and to borrowers of different income levels is reasonable. The bank actively lends to businesses with gross annual revenues of \$1 million or less and to low- and moderate-income individuals. Refer to the individual assessment area sections for a more detailed discussion of the borrower distribution of loans.

GEOGRAPHIC DISTRIBUTION OF LOANS

The overall geographic distribution of loans reflects reasonable dispersion throughout the assessment areas, including low- and moderate-income census tracts, and does not reveal any unexplained gaps in lending patterns. Refer to the individual assessment area sections for more detailed information on the geographic distribution of loans.

QUALIFIED INVESTMENTS AND SERVICES

Since the previous evaluation, the bank made qualified investments in the form of securities and donations, and it provided services that enhance the bank's overall CRA rating. The bank's community development activities occurred in all four of the bank's assessment areas.

Qualified Investments. The level of qualified investments in the form of securities is impactful because of affordable housing concerns in the bank's assessment areas. The bank purchased one new security in the form of a pool of mortgages for \$1.2 million; the mortgage loans were to low- and moderate-income borrowers in the Libby/Troy/Kalispell and Missoula assessment areas. The bank also retains \$220,000 in prior-period qualified investments, which benefit the Libby/Troy/Kalispell assessment area.

The bank made qualified donations totaling \$56,363. The majority of the donations were to organizations that provide community services to people with low and moderate incomes. Over \$10,000 in donations helped efforts to revitalize and stabilize moderate-income and distressed areas in the Anaconda/Butte and Libby/Troy/Kalispell assessment areas. The bank also continues to make donations that benefit economic development and affordable housing organizations. Overall, the donations are particularly responsive to area needs.

Services. The bank provides many community development services that enhance its CRA performance. During the evaluation period, bank officers and staff provided 39 community development services that benefited all four assessment areas. Most notable are the bank's services that help revitalize and stabilize low- and moderate-income areas in the Libby/Troy/Kalispell assessment area. In addition, bank staff members actively serve with organizations that provide community services to low- and moderate-income individuals in the bank's assessment areas.

Finally, five of the bank's offices are located in low- or moderate-income census tracts. The bank's main office is in a low-income census tract in the Missoula assessment area, and the Missoula branch is in a moderate-income tract. In addition, one branch in the Anaconda/Butte assessment area and two in the Libby/Troy/Kalispell assessment area are located in moderate-income tracts.

Making qualified investments, having branches in low- and moderate-income areas, and providing other services and delivery systems enhance credit availability in the bank's assessment areas.

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, Regulation C – Home Mortgage Disclosure Act, and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

NONMETROPOLITAN AREA – FULL REVIEW

DESCRIPTION OF THE ANACONDA/BUTTE ASSESSMENT AREA

Bank Information. The bank operates three full-service branch offices in the Anaconda/Butte assessment area. Two offices are located in Anaconda in Deer Lodge County, and the third is located in Butte in Silver Bow County. The bank also operates a full-service ATM at the Butte branch, and cash-dispensing-only ATMs at the Anaconda branches. The Butte and Anaconda East branches have drive-up facilities, which have extended weekday and Saturday hours. Finally, the Butte branch is located in a moderate-income census tract.

According to the June 30, 2017, FDIC Deposit Market Share Report, the bank had \$102.9 million in deposits in the Anaconda/Butte assessment area, or 14.9% of the market’s deposits. The bank ranks third of eight FDIC-insured institutions with offices in this assessment area, behind a national bank and a regional bank.

Assessment Area. The Anaconda/Butte assessment area includes all of Deer Lodge and Silver Bow counties. The bank has not changed this assessment area since the previous evaluation. However, the number of census tracts decreased based on 2010 census changes, and the income classifications of some of the tracts changed based on FFIEC adjusted census data. At the previous evaluation, the assessment area consisted of 12 census tracts: one moderate, eight middle, and three upper income. The assessment area now consists of 11 census tracts: one low, three moderate, six middle, and one upper income. Several middle-income census tracts in both counties were designated as distressed for a time during the evaluation period.

Table 4 shows the demographic characteristics of the assessment area based on the 2017 Federal Financial Institutions Examination Council (FFIEC) adjusted census data³ and 2016 Dun & Bradstreet data.

TABLE 4								
Anaconda/Butte Assessment Area Demographics								
<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	1	9.1	946	9.0	246	26.0	2,547	24.1
Moderate Income	3	27.3	2,736	25.9	478	17.5	2,076	19.7
Middle Income	6	54.5	5,737	54.3	495	8.6	2,063	19.5
Upper Income	1	9.1	1,139	10.8	116	10.2	3,872	36.7
Total Assessment Area	11	100.0	10,558	100.0	1,335	12.6	10,558	100.0

³The 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.

TABLE 4
Anaconda/Butte Assessment Area Demographics

Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low Income	2,882	1,147	9.1	39.8	1,352	46.9	383	13.3
Moderate Income	5,792	2,986	23.8	51.6	2,279	39.3	527	9.1
Middle Income	11,231	6,939	55.4	61.8	2,477	22.1	1,815	16.2
Upper Income	2,002	1,464	11.7	73.1	351	17.5	187	9.3
Total Assessment Area	21,907	12,536	100.0	57.2	6,459	29.5	2,912	13.3
Income Categories	Total Businesses by Tract	Businesses by Tract and Revenue Size						
		≤ \$1 Million		> \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low Income	471	21.7	418	21.1	46	28.8	7	26.9
Moderate Income	528	24.3	491	24.7	34	21.3	3	11.5
Middle Income	992	45.7	909	45.8	38	42.5	15	57.7
Upper Income	179	8.2	166	8.4	12	7.5	1	3.8
Total Assessment Area	2,170	100.0	1,984	100.0	160	100.0	26	100.0
Percentage of Total Businesses:				91.4		7.4		1.2
Income Categories	Total Farms by Tract	Farms by Tract and Revenue Size						
		≤ \$1 Million		> \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low Income	2	3.7	1	1.9	1	100.0	0	0.0
Moderate Income	7	13.0	7	13.2	0	0.0	0	0.0
Middle Income	45	83.3	45	84.9	0	0.0	0	0.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	54	100.0	53	100.0	1	100.0	0	0.0
Percentage of Total Farms:				98.1		1.9		0.0

Income. For purposes of classifying borrower incomes, this evaluation uses the FFIEC estimated median family income. For borrowers in the nonmetropolitan areas of Montana, the figure is \$56,600 for 2012, \$55,400 for 2013, \$58,300 for 2014, \$60,000 for 2015, \$60,300 for 2016, and \$60,500 for 2017. For purposes of classifying census tracts by income level, this evaluation relies on the FFIEC adjusted census data median family income for nonmetropolitan Montana, which was \$54,140 for 2012 and 2013, \$54,061 for 2014 through 2016, and \$59,958 for 2017.

Population Characteristics. According to the 2017 FFIEC adjusted census data, the population in this assessment is 43,760; the population increased slightly since the 2010 census. The population in Deer Lodge County is 9,211, and the population for Silver Bow County is 34,549. The majority of the population (51.3%) is between 25 and 64 years old. The census data also indicates that 19.0% of the households in the assessment area are below the poverty level and that the housing affordability ratio is 29.5.

Economy. Bank management stated that the economy in this assessment area is severely struggling. However, a community contact stated that over the past year several new small businesses have opened in the uptown section of Butte. These are mainly businesses in the service industry, such as restaurants and retail stores. A community contact also stated that the area has some niche businesses like camping and backpacking-related stores. Economic development agencies are extensively promoting business start-ups and business relocations to the Butte area. Since the previous evaluation, one large national retailer closed a store location in Butte, leaving approximately 35 people unemployed. Another large national

retailer is scheduled to close its Butte location as early as April 2018, which will lead to an undisclosed number of employees losing their jobs. There are more jobs available in the service industry than in higher-paying fields. Bank management and community contacts indicated that major employers in the area include local government, school systems, hospitals, Montana Resources, and Northwestern Energy. Finally, a community contact stated that Butte residents commute to Bozeman for employment opportunities.

According to the Bureau of Labor Statistics (BLS), the 2017 nonseasonally adjusted average unemployment rate was 3.3% for Deer Lodge County and 4.1% for Silver Bow County. These rates are slightly lower than or comparable to the 2017 statewide average rate for Montana of 4.0%. During the evaluation period, the unemployment rate peaked in January 2013 for both counties (6.2% in Deer Lodge County and 6.7% in Silver Bow County). Overall, the rates in both counties decreased steadily throughout the evaluation period. According to BLS data, the 2016 average annual pay for privately employed workers in Deer Lodge and Silver Bow counties was \$35,302 and \$38,365, respectively.

Housing. According to community contacts, affordable housing is a concern for both homeowners and renters. The average home prices range from \$135,000 to \$140,000, with limited inventory in the Butte and Anaconda areas. The housing vacancy rate is very low for affordable units. Although there are housing units available, many would not pass inspection to qualify for Section 8 housing subsidies. The City of Butte is addressing some housing issues by taking steps to contact owners of abandoned commercial buildings and homes in an effort to update and transition them into affordable housing units. To address student-housing needs, the local college is constructing a new dormitory for students. Students moving into new campus housing will free up private properties for nonstudent renters. In addition, a new multifamily housing development, slated to be constructed in phases, is focused on providing affordable housing for low- and moderate-income families.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank effectively meets the credit needs of the Anaconda/Butte assessment area. The bank's lending to small businesses and low- and moderate-income borrowers is reasonable. Further, the geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending.

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

The bank's lending to businesses of different sizes and to borrowers of different income levels in the Anaconda/Butte assessment area is reasonable.

Small Business Lending. The bank's lending to small businesses is reasonable. Table 5 shows the bank's small business lending. The bank originated 100.0% of its small business loans to businesses with gross annual revenues of \$1 million or less. According to 2016 Dun & Bradstreet data, 91.4% of businesses in the assessment area have gross annual revenues of \$1 million or less. The bank's lending is above demographics. In addition, 76.7% of the small business loans were in amounts of \$100,000 or less, which shows the bank's willingness to serve the credit needs of smaller entities in the assessment area.

<i>Small Business Loan 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	76.7%	23.3%	0.0	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	76.7%	23.3%	0.0	100.0%

Consumer Lending. The bank’s consumer lending to low- and moderate-income borrowers is reasonable. As shown in Table 6, the bank originated 17.1% of its consumer loans to low-income borrowers, which is below the percentage of low-income households in the assessment area (30.9%). The bank originated 21.4% of its consumer loans to moderate-income borrowers, which exceeds the percentage of moderate-income households in the assessment area (17.9%). Overall, the bank originated 38.5% of its consumer loans to low- and moderate-income borrowers, combined, which is reasonable.

<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$	#	\$
Consumer	17.1%	4.9%	21.4%	16.7%	28.6%	32.1%	28.6%	43.3%
Percentage of Households by Income Levels**	30.9%		17.9%		17.1%		34.1%	

* Median family income for nonmetropolitan Montana is \$60,500 for 2017.
**Based on 2017 census data.

Residential Real Estate Lending. The bank’s HMDA lending to moderate-income borrowers is excellent. Table 7 shows the percentage of lending for each income category for 2016 and 2015.

2016 HMDA Loans										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	2	10.5	2	10.5	2	10.5	3	15.8	10	52.6
Refinance	0	0.0	1	20.0	1	20.0	2	40.0	1	20.0
Home Improvement	0	0.0	0	0.0	4	80.0	1	20.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	1	100.0
Total 2016 HMDA Loans	2	6.7	3	10.0	7	23.3	6	20.0	12	40.0

TABLE 7										
Distribution of HMDA Loans by Borrower Income Levels										
Anaconda/Butte Assessment Area										
2015 HMDA Loans										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	0	0.0	2	20.0	4	40.0	4	40.0	0	0.0
Refinance	2	33.3	0	0.0	2	33.3	2	33.3	0	0.0
Home Improvement	0	0.0	3	37.5	3	37.5	2	25.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	1	100.0
Total 2015 HMDA Loans	2	8.0	5	20.0	9	36.0	8	32.0	1	4.0
Total HMDA Loans	4	7.3	8	14.5	16	29.1	14	25.5	13	23.6

The bank ranked eighth out of 90 HMDA reporters in 2016 and 10th out of 79 HMDA reporters in 2015. The bank has competition in this assessment area. Although the bank ranks relatively high compared to most other HMDA reporters, its HMDA lending accounts for a small percentage of all HMDA loans reported in the assessment area: 2.7% in 2016 and 2.3% in 2015. The top five reporters for both years include national and regional banks and an online lender.

As shown in Table 7, in 2016 the bank originated 6.7% of its HMDA loans to low-income borrowers and 10.0% to moderate-income borrowers, totaling 16.7%. Aggregate lenders extended 8.1% of HMDA loans to low-income borrowers and 17.5% to moderate-income borrowers, totaling 25.6%. In 2015, the bank originated 8.0% of its HMDA loans to low-income borrowers and 20.0% to moderate-income borrowers, totaling 28.0%. Aggregate lenders extended 7.1% of HMDA loans to low-income borrowers and 18.5% to moderate-income borrowers, again totaling 25.6%. The bank's lending performance is below aggregate in 2016 and exceeds aggregate lenders in 2015. According to FFIEC adjusted census data for 2015 and 2016, 20.8% of the families in the assessment area are low income and 20.5% are moderate income, for a combined figure of 41.3%. For both years, the bank's combined lending to low- and moderate-income borrowers is below demographics, but it compares well to demographics in 2015 for loans to moderate-income borrowers.

Affordable housing continues to be a concern in the Anaconda/Butte assessment area. Using the assumption that a borrower can afford a home for approximately three times his or her annual income, an individual with the highest income in the low-income bracket (\$30,149) could afford a \$90,447 home, based on 2016 FFIEC estimated median family income for the nonmetropolitan areas of Montana. Using the same assumption for borrowers with the highest income in the moderate-income bracket (\$48,239), a borrower could afford a \$144,717 home. According to 2016 FFIEC adjusted census data, the median housing value in the assessment area is \$128,562, which would not be affordable for many low- and moderate-income families. The median age of housing in the assessment area is 61 years. A community contact stated that the inventory of affordable homes is low, and they require extensive updates that are not cost effective for first-time homebuyers.

While not reflected in Table 7, the bank's 2014, 2013, and 2012 lending to low- and moderate-income borrowers is generally comparable to the 2016 and 2015 results (below demographics and consistent with or exceeding aggregate lenders). With the exception of 2012, where the bank significantly exceeded aggregate performance, the bank's performance is consistent with aggregate lenders in lending to low- and moderate-income borrowers combined.

The bank’s performance is excellent, given the performance context. The bank is primarily a commercial lender and faces competition from national banks, regional banks, and an online lender for HMDA loans in this assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the geographic distribution and dispersion of the bank’s loans in the Anaconda/Butte assessment area is reasonable and does not reveal any unexplained gaps in lending. The bank has three branches in this assessment area.

Small Business Lending. The distribution of small business lending is reasonable. Table 8 shows the bank’s small business lending by census tract income level. The bank’s small business lending in the low-income tract is below demographics, and its lending in the moderate-income tracts exceeds demographics. According to Dun & Bradstreet data, 21.7% of businesses in the assessment area are located in the low-income census tract, and 24.3% are in the moderate-income census tracts. The bank did not make any small business loans in one moderate-income tract in Butte, but this is explainable. The tract is small and includes a business corridor with several financial institutions, including large national and regional banks and credit unions; competition here is high. Overall, the local economy remains flat and has limited loan demand, according to bank management.

TABLE 8								
Geographic Distribution of Small Business Loans by Census Tract Income Level*								
Anaconda/Butte Assessment Area								
<i>Loan Type Sample</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$	#	\$
Small Business	3.3%	1.1%	30.0%	30.0%	46.7%	44.3%	20.0%	24.6%
Demographic Data								
Number of Census Tracts	1		3		6		1	
Percentage of Census Tracts	9.1%		27.3%		54.5%		9.1%	
Percentage of Businesses**	21.7%		24.3%		45.7%		8.2%	
*Income classification of census tracts is based on 2017 FFIEC census data.								
**Percentages are based on 2016 Dun & Bradstreet data.								

Consumer Lending. The bank’s consumer lending in the low- and moderate-income census tracts is reasonable. Table 9 shows the distribution of consumer loans by census tract income level.

TABLE 9								
Geographic Distribution of Consumer Loans by Census Tract Income Level*								
Anaconda/Butte Assessment Area								
<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$	#	\$
Consumer	7.1%	6.4%	30.0%	26.5%	57.1%	62.9%	5.7%	4.3%
Demographic Data*								
Number of Census Tracts	1		3		6		1	
Percentage of Census Tracts	9.1%		27.3%		54.5%		9.1%	
Percentage of Households	13.2%		27.7%		49.6%		9.6%	
*Income classification of census tracts based on 2017 FFIEC census data.								

The bank originated 7.1% of its consumer loans by number in the low-income tract and 30.0% in the moderate-income tracts. The bank’s lending in the low-income tract is below demographics, which indicate that 13.2% of the households are in the low-income tracts. The bank’s lending in the moderate-income tracts is slightly above demographics, which indicate that 27.7% of households are in the moderate-income tracts. Although the bank’s lending in low- and moderate-income tracts combined is lower than demographics, the bank originated consumer loans in all census tracts in this assessment area. Bank management stated that competition in the area for consumer loans is high and that the bank does not have a specific marketing program focused on consumer loan products. Overall, the geographic distribution of consumer loans is reasonable.

Residential Real Estate Lending. The geographic distribution of the bank’s 2016 and 2015 HMDA loans is excellent. Table 10 shows the distribution of the bank’s HMDA loans by census-tract income levels.

TABLE 10						
Geographic Distribution of HMDA Loans by Census Tract Income Level						
Anaconda/Butte Assessment Area						
2016 HMDA Loans						
<i>Loan Type</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	%	#	%	#	%
Home Purchase	4	21.1	15	78.9	0	0.0
Refinance	3	60.0	2	40.0	0	0.0
Home Improvement	1	20.0	4	80.0	0	0.0
Multifamily	0	0.0	1	100.0	0	0.0
Total 2016 HMDA Loans	8	26.7	22	73.3	0	0.0
2015 HMDA Loans						
<i>Loan Type</i>	<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	#	%	#	%	#	%
Home Purchase	2	20.0	8	80.0	0	0.0
Refinance	2	33.3	4	66.7	0	0.0
Home Improvement	4	50.0	4	50.0	0	0.0
Multifamily	0	0.0	1	100.0	0	0.0
Total 2015 HMDA Loans	8	32.0	17	68.0	0	0.0

For 2016 and 2015, the assessment area included two moderate-income census tracts, eight middle-income census tracts, and one upper-income census tract. According to FFIEC adjusted census data, 15.6% of families in the assessment area resided in moderate-income tracts for the entire evaluation period.

For 2016 and 2015, the bank originated 26.7% and 32.0% of its HMDA loans in moderate-income tracts, respectively. Aggregate lenders originated 11.2% and 9.8% of the HMDA loans in moderate-income tracts in 2016 and 2015, respectively. The bank’s lending in the moderate-income tracts significantly exceeds demographics and aggregate lender performance. The bank did not originate any HMDA loans in one moderate-income tract in 2015, but this is explainable. The tract is in the city of Butte; only 8.8% of the assessment area families reside here, only 30.2% of the housing units are owner-occupied, and the poverty level is high (36.2%). In addition, many financial institutions operate in the area. Lack of lending in this tract is reasonable.

Although not shown in Table 10, the bank's 2014 and 2013 lending in the moderate-income tracts significantly exceeded aggregate lender performance and demographics. In 2012, the bank's performance was comparable to that of aggregate lenders and below demographics. The bank made HMDA loans in all moderate-income tracts in 2014, 2013, and 2012.

Overall, the geographic distribution of the bank's HMDA loans is excellent, given the performance context.

NONMETROPOLITAN AREA – FULL REVIEW

DESCRIPTION OF THE LIBBY/TROY/KALISPELL ASSESSMENT AREA

Bank Information. The bank operates three full-service branch offices in the Libby/Troy/Kalispell assessment area. Offices are located in Libby and Troy in Lincoln County and Kalispell in Flathead County. The bank also operates a full-service ATM at its Libby branch and two cash-dispensing-only ATMs at its Troy and Kalispell branches. All three branches have drive-up facilities. The Libby and Kalispell drive-ups have extended weekday hours, and the Libby drive-up offers Saturday hours. Finally, the Libby and Troy offices are located in moderate-income census tracts.

According to the June 30, 2017, FDIC Deposit Market Share Report, the bank had \$95.5 million in deposits in the Libby/Troy/Kalispell assessment area, or 4.2% of the market share. The bank ranks sixth of 11 FDIC-insured institutions in this assessment area. The bank operates in a competitive market with two large national banks and two regional banks.

Assessment Area. The Libby/Troy/Kalispell assessment area includes all of Lincoln and Flathead counties. The bank has not changed this assessment area since the previous evaluation. However, the number of census tracts increased based on 2010 census changes, and the income classifications of some tracts changed based on FFIEC adjusted census data. At the previous evaluation, the assessment area consisted of 20 census tracts: three moderate, 15 middle, and two upper income. The assessment area now consists of 24 census tracts: five moderate, 17 middle, and two upper income. Some middle-income census tracts in Lincoln County were designated as a distressed for a time during the evaluation period.

Table 11 shows the demographic characteristics of the assessment area based on the 2017 FFIEC adjusted census data⁴ and 2016 Dun & Bradstreet data.

<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < 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	5,840	19.8
Moderate Income	5	20.8	5,401	18.3	731	13.5	6,062	20.6
Middle Income	17	70.8	20,877	70.9	1,823	8.7	7,189	24.4
Upper Income	2	8.3	3,180	10.8	231	7.3	10,367	35.2
Total Assessment Area	24	100.0	29,458	100.0	2,785	9.5	29,458	100.0

⁴The 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.

<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>		
		<i>#</i>	<i>%</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	13,325	6,327	19.1	47.5	3,019	22.7	3,979	29.9
Middle Income	40,695	23,282	70.3	57.2	8,881	21.8	8,532	21.0
Upper Income	4,761	3,498	10.6	73.5	744	15.6	519	10.9
Total Assessment Area	58,781	33,107	100.0	56.3	12,644	21.5	13,030	22.2
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
			<i>≤\$1 Million</i>		<i>>\$1 Million</i>		<i>Revenue Not Reported</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	1,136	15.8	1,045	15.7	75	16.4	16	24.2
Middle Income	5,303	73.8	4,927	73.9	331	72.3	45	68.2
Upper Income	748	10.4	691	10.4	52	11.4	5	7.6
Total Assessment Area	7,187	100.0	6,663	100.0	458	100.0	66	100.0
Percentage of Total Businesses:				92.7		6.4		0.9
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
			<i>≤\$1 Million</i>		<i>>\$1 Million</i>		<i>Revenue Not Reported</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	71	20.9	71	21.6	0	0.0	0	0.0
Middle Income	224	66.1	217	66.2	7	63.6	0	0.0
Upper Income	44	13.0	40	12.2	4	36.4	0	0.0
Total Assessment Area	339	100.0	328	100.0	11	100.0	0	0.0
Percentage of Total Farms:				96.8		3.2		0.0

Income. For purposes of classifying borrower income, this evaluation uses the FFIEC estimated median family income. For borrowers in the nonmetropolitan areas of Montana, the figure is \$56,600 for 2012, \$55,400 for 2013, \$58,300 for 2014, \$60,000 for 2015, \$60,300 for 2016, and \$60,500 for 2017. For purposes of classifying census tracts by income level, the evaluation uses the FFIEC adjusted census data median family income for nonmetropolitan Montana, which was \$54,140 for 2012 and 2013, \$54,061 for 2014 through 2016, and \$59,958 for 2017.

Population Characteristics. According to the 2017 FFIEC adjusted census data, the population in this assessment area is 112,670; the population increased slightly since the 2010 census. The population in Lincoln County is 19,337, and the population in Flathead County is 93,333. The majority of the population (53.0%) is between 25 and 64 years old. The census data also indicates that 13.9% of the households in the assessment area are below the poverty level and that the housing affordability ratio is 20.5. Finally, a community contact stated that the Kalispell area has a large semi-transient population, and local community service organizations focus on providing them with affordable housing.

The assessment area contains national and state forests, as well as a portion of Glacier National Park. In addition, a portion of the Flathead Indian Reservation, which is home to the Confederated Salish and Kootenai Tribes of the Flathead Nation, is located in southern Flathead County.

Economy. According to bank management, the economy in this assessment area is stable and growing. Local businesses are always hiring due to high tourism in the Kalispell area. Major employers in the area

are the local government, school districts, U.S. Department of Agriculture Forest Service, and area hospitals. According to the Bureau of Labor Statistics (BLS), the 2017 nonseasonally adjusted average unemployment rate was 5.1% for Flathead County and 8.2% for Lincoln County. The rates are higher than the 2017 statewide average rate for Montana of 4.0%. During the evaluation period, the unemployment rate for Flathead County peaked at 10.5% in January 2013, and for Lincoln County, the rate peaked at 16.0% in January 2014. Overall, the rates in both counties decreased steadily throughout the evaluation period. A community contact stated that unemployment is low and service-industry jobs are more common and readily available for anyone that wants employment. Another community contact indicated that many workers are lower income and make only minimum wage. According to BLS data, the 2016 average annual pay for privately employed workers in Flathead and Lincoln counties was \$38,439 and \$28,841, respectively.

Housing. According to a community contact, the rental housing vacancy rate is approximately 1%, and there is low inventory of affordable housing in the assessment area. Community contacts indicated that the housing market has generally recovered in the Kalispell area and that housing is trending toward higher-end development. Home values in the Kalispell area are more comparable to the Missoula area, and the values are increasing over time. Bank management stated that the real estate market in Lincoln County is depressed and that Canadian residents are purchasing inventory here for vacation homes. Bank management and community contacts stated that, in general, affordable housing continues to be a concern throughout the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank effectively meets the credit needs of the Libby/Troy/Kalispell assessment area. The bank’s lending to low- and moderate-income borrowers is reasonable. Further, the geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending. As mentioned, examiners did not analyze the bank’s small business lending because it is not a major product for this assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS

Overall, the bank’s lending to borrowers of different income levels in the Libby/Troy/Kalispell assessment is reasonable.

Consumer Lending. The bank’s consumer lending to low- and moderate-income borrowers is reasonable. As shown in Table 12, the bank originated 20.8% of its consumer loans to low-income borrowers, which is below the percentage of low-income households in the assessment area (24.3%). The bank originated 25.0% of its consumer loans to moderate-income borrowers, which exceeds the percentage of moderate-income households in the assessment area (16.6%). Bank management stated that competition for consumer loans is high in the assessment area, especially from credit unions.

TABLE 12								
Distribution of Consumer Loans by Borrower Income Levels*								
Libby/Troy/Kalispell Assessment Area								
Loan Type	Low Income		Moderate Income		Middle Income		Upper Income	
	#	\$	#	\$	#	\$	#	\$
Consumer	20.8%	13.4%	25.0%	33.6%	45.8%	45.8%	8.3%	7.2%
Percentage of Households by Income Levels**	24.3%		16.6%		18.8%		40.4%	
*Median family income for nonmetropolitan Montana is \$60,500 for 2017.								
**Based on 2017 FFIEC census data.								

Residential Real Estate Lending. The bank’s lending to low- and moderate-income borrowers is excellent. Table 13 shows the percentage of lending for each income category for 2016 and 2015.

TABLE 13										
Distribution of HMDA Loans by Borrower Income Levels										
Libby/Troy/Kalispell Assessment Area										
2016 HMDA Loans										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	0	0.0	2	20.0	2	20.0	6	60.0	0	0.0
Refinance	1	14.3	2	28.6	0	0.0	3	42.9	1	14.3
Home Improvement	0	0.0	0	0.0	0	0.0	1	100.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total 2016 HMDA Loans	1	5.6	4	22.2	2	11.1	10	55.6	1	5.6
2015 HMDA Loans										
<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	0	0.0	3	33.3	1	11.1	3	33.3	2	22.2
Refinance	3	23.1	1	7.7	2	15.4	4	30.8	3	23.1
Home Improvement	0	0.0	2	66.7	1	33.3	0	0.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total 2015 HMDA Loans	3	12.0	6	24.0	4	16.0	7	28.0	5	20.0
Total HMDA Loans	4	9.3	10	23.3	6	13.9	17	39.5	6	13.9

The bank ranked 26th out of 166 HMDA reporters in 2016 and 24th out of 144 HMDA reporters in 2015. Although the bank ranks relatively high compared to most other HMDA reporters, its HMDA lending accounts for a very small percentage of all HMDA loans reported in the assessment area: 0.4% in 2016 and 0.6% in 2015. The top five reporters for both years include a mortgage lender and national and regional banks. The bank has high competition in this assessment area.

As shown in Table 13, in 2016 the bank originated 5.6% of its HMDA loans to low-income borrowers and 22.2% to moderate-income borrowers, totaling 27.8%. In 2016, aggregate lenders extended 3.9% of HMDA loans to low-income borrowers and 14.6% to moderate-income borrowers, totaling 18.5%. In 2015, the bank extended 12.0% of its HMDA loans to low-income borrowers and 24.0% to moderate-income borrowers, totaling 36.0%. Aggregate lenders extended 4.1% of HMDA loans to low-income borrowers and 12.6% to moderate borrowers in 2015, totaling 16.7%. Overall, the bank’s HMDA lending to low- and moderate-income borrowers combined significantly exceeds that of aggregate lenders for 2016 and 2015. According to FFIEC adjusted census data for 2015 and 2016, 22.5% of the families in the assessment area are low income and 18.4% are moderate income, for a combined figure of 40.9%. For both years, the bank’s lending is below demographics for low-income borrowers but exceeds demographic for moderate-income borrowers.

Affordable housing is a concern in this assessment area. A community contact stated that affordable housing inventory is low. Available homes often require additional updates to make them livable. Using the assumption that a borrower can afford a home for approximately three times his or her annual income, an individual with the highest income in the low-income bracket (\$30,149) could afford a \$90,447 home, based on 2016 FFIEC estimated median family income for the nonmetropolitan areas of Montana. Using the same assumption for borrowers with the highest income in the moderate-income bracket (\$48,239), a borrower could afford a \$144,717 home. According to 2016 FFIEC adjusted census data, the median

housing value in the assessment area is \$216,309, which would not be affordable for many low- and moderate-income residents.

While not reflected in the table above, the bank’s 2014, 2013, and 2012 lending to low- and moderate-income borrowers is generally comparable to the 2016 and 2015 results (generally below demographics but consistent with or exceeding aggregate lenders). For 2013, the bank did not originate any HMDA loans to low-income borrowers but did originate 6.7% to moderate-income borrowers. With the exception of 2013, the bank consistently exceeded aggregate lenders’ performance in lending to low- and moderate-income borrowers combined.

The bank’s HMDA performance is excellent, given the performance context. The bank is primarily a commercial lender and faces considerable competition from national and regional banks, credit unions, and mortgage companies for HMDA loans in this assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank’s loans in the Libby/Troy/Kalispell assessment area is excellent and does not reveal any unexplained gaps in lending. The Libby/Troy/Kalispell assessment area is geographically large, and the bank has three branches in this assessment area.

Consumer Lending. The bank’s consumer lending performance in the moderate-income census tracts is excellent. Table 14 shows the distribution of consumer loans by census tract income level.

TABLE 14						
Geographic Distribution of Consumer Loans by Census Tract Income Level*						
Libby/Troy/Kalispell Assessment Area						
<i>Loan Type</i>	<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$
Consumer	50.0%	43.7%	50.0%	56.3%	0.0%	0.0%
<i>Demographic Data*</i>						
Number of Census Tracts	5		17		2	
Percentage of Census Tracts	20.8%		70.8%		8.3%	
Percentage of Households	20.4%		70.3%		9.3%	
*Income classification of census tracts based on 2017 FFIEC census data.						

For 2017, the assessment area includes five moderate-, 17 middle-, and two upper-income census tracts, according to FFIEC adjusted census data. The bank originated 50.0% of its consumer loans in the moderate-income tracts. The bank’s performance significantly exceeds demographics, which indicates that 20.4% of households in the assessment area reside in the moderate-income tracts. Bank management stated that there is a high demand for consumer loans here, and the bank competes with local credit unions for these loans. The bank extended most of the consumer loans in the moderate-income tracts where the bank has branches or adjacent to where the bank has a branch.

The bank did not originate any consumer loans in two moderate-income census tracts. One of the tracts is far from the branches; it contains state and federal forests and a portion of Glacier National Park, and only 2.9% of the assessment area households are in this tract. The other tract is on the northern edge of the assessment area; the bank does not have branches here, and other financial institutions that do operate branches in the assessment area are more likely to serve its residents.

Overall, the geographic distribution of the bank’s consumer loans is excellent, given the performance context.

Residential Real Estate Lending. The geographic distribution of the bank’s 2016 and 2015 HMDA lending is excellent. Table 15 shows the distribution of the bank’s HMDA loans by census tract income level.

TABLE 15								
Geographic Distribution of HMDA Loans by Census Tract Income Level								
Libby/Troy/Kalispell Assessment Area								
2016 HMDA Loans								
<i>Loan Type</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	2	20.0	3	30.0	5	50.0	0	0.0
Refinance	0	0.0	3	42.9	3	42.9	1	14.3
Home Improvement	0	0.0	0	0.0	1	100.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0
Total 2016 HMDA Loans	2	11.1	6	33.3	9	50.0	1	5.6
2015 HMDA Loans								
<i>Loan Type</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Home Purchase	0	0.0	3	33.3	3	33.3	3	33.3
Refinance	2	15.4	2	15.4	8	61.5	1	7.7
Home Improvement	1	33.3	0	0.0	2	66.7	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0
Total 2015 HMDA Loans	3	12.0	5	20.0	13	52.0	4	16.0

For 2016 and 2015, the assessment area had one low-, five moderate-, 15 middle-, and three upper-income census tracts. According to FFIEC adjusted census data for 2016 and 2015, 2.4% of families in the assessment area reside in the low-income tract, and 19.7% reside in the moderate-income tracts.

In 2016, the bank originated 11.1% of its HMDA loans in the low-income census tract and 33.3% in the moderate-income census tracts. Aggregate lenders originated 1.1% of HMDA loans in the low-income census tract and 15.8% in the moderate-income census tracts. In 2015, the bank originated 12.0% of HMDA loans in the low-income census tract and 20.0% in the moderate-income census tracts. Aggregate lenders originated 1.0% of HMDA loans in the low-income census tract and 14.2% in the moderate-income census tracts. Overall, the bank’s HMDA lending performance significantly exceeds aggregate lender performance and demographics for both 2015 and 2016. Finally, the bank originated HMDA loans in the low-income census tract in both years.

In 2015, the bank did not make any HMDA loans in three moderate-income tracts. One of the tracts is far from the branches; it contains state and federal forests and a portion of Glacier National Park, and only 28.6% of the housing units here are owner-occupied. The second tract is just outside of Kalispell; only 5.2% of families in the assessment area reside here and there is more competition for HMDA loans in the city. The third tract includes portions of a national forest, and only 4.2% of the assessment area families reside here. According to bank management, the bank faces strong competition for residential real estate loans in this area.

In 2016, the bank did not make any HMDA loans in two moderate-income census tracts. One of the tracts is described in the previous paragraph. The other tract is in southern Kalispell; only 49.5% of the housing units in this tract are owner-occupied.

Although not shown in the table, the bank's performance in 2014 and 2012 exceeded aggregate lender performance. The bank's performance in 2013 was below aggregate lender performance for lending in the low-income census tract and exceeded aggregate lender performance for lending in moderate-income census tracts. In addition, the bank's lending in low- and moderate-income tracts combined is comparable to demographics for 2012 and significantly exceeds demographics for 2013 and 2014.

Overall, the geographic distribution of the bank's HMDA loans is excellent, given the performance context.

NONMETROPOLITAN AREA – LIMITED REVIEW

DESCRIPTION OF INSTITUTION’S OPERATIONS IN THE BOZEMAN ASSESSMENT AREA

Examiners conducted a limited-scope review of the bank’s CRA performance in the Bozeman assessment area. They determined that the bank’s lending performance in this assessment area is generally consistent with the performance in the Anaconda/Butte and Libby/Troy/Kalispell assessment areas. Examiners analyzed the bank’s small business, consumer, and HMDA loans.

The bank has limited loan volume in this assessment area. According to information provided by the bank, it originated only 4.1% of loans by number and 17.4% by dollar amount in this assessment area. According to the June 30, 2017, FDIC Deposit Market Share Report, the bank had \$12.5 million in deposits in the Bozeman assessment area, which is 0.5% of the market share. The bank ranks 14th out of 15 financial institutions in the assessment area, which demonstrates the competitive banking environment.

The Bozeman assessment area consists of all of Gallatin County. The bank has not changed the assessment area since the previous evaluation. However, the number of census tracts increased based on 2010 census changes, and the income classifications of some tracts changed based on FFIEC adjusted census data. At the previous evaluation, the assessment area consisted of 14 census tracts: one moderate, six middle, and seven upper income. The assessment area now consists of 22 census tracts: one low, two moderate, seven middle, and 12 upper income. The population of the assessment area is 95,323, according to 2017 FFIEC adjusted census data.⁵

The bank operates one full-service branch in Bozeman, which is located in an upper-income census tract. The branch has a cash-dispensing-only ATM and a drive-up facility offering extended weekday hours. The bank has not opened or closed any branches or ATMs in this assessment area since the previous evaluation.

Table 16 provides information regarding the demographic characteristics of the assessment area based on the 2017 FFIEC adjusted census data.

TABLE 16				
Assessment Area Demographics – Bozeman Assessment Area				
<i>Income Category</i>	<i>Tract Distribution</i>		<i>Percentage of Families by Tract</i>	<i>Percentage of Families by Income Level</i>
	<i>#</i>	<i>%</i>		
Low Income	1	4.5	1.7	13.4
Moderate Income	2	9.1	4.3	15.8
Middle Income	7	31.8	29.5	19.9
Upper Income	12	54.5	64.6	50.9
Total	22	100.0	100.0	100.0

⁵The 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.

METROPOLITAN AREA – LIMITED REVIEW

DESCRIPTION OF THE INSTITUTION’S OPERATIONS IN THE MISSOULA ASSESSMENT AREA

Examiners conducted a limited-scope review of the bank’s CRA performance in the Missoula assessment area. They determined that the bank’s lending in this assessment area is generally consistent with the bank’s overall performance. Examiners analyzed the bank’s small business, consumer, and HMDA loans.

The bank has limited loan volume in this assessment area. According to information provided by the bank, it originated only 13.7% of loans by number and 22.9% by dollar amount in this assessment area. According to the June 30, 2017, FDIC Deposit Market Share Report, the bank had \$28.7 million in deposits in the Missoula assessment area, which is 1.2% of the market share. The bank ranks 11th out of 12 financial institutions in the assessment area, which demonstrates the competitive banking environment.

The Missoula assessment area is the Missoula, MT MSA, which consists of all of Missoula County. The bank has not changed the assessment area since the previous evaluation. However, the number of census tracts increased based on 2010 census changes, and the income classifications of some tracts changed based on FFIEC adjusted census data. At the previous evaluation, the assessment area consisted of 19 census tracts: four moderate, 13 middle, and two upper income. The assessment area now consists of 20 census tracts: one low, three moderate, 13 middle, and three upper income. The population in the assessment area is 111,966, according to 2017 FFIEC adjusted census data.⁶

The bank operates two full-service branches in Missoula; both have cash-dispensing-only ATMs. The Missoula South branch has a drive-up facility that offers extended weekday hours. The bank has not opened or closed any branches or ATMs in this assessment area since the previous evaluation.

Table 17 provides information regarding the demographic characteristics of the assessment area based on the 2017 FFIEC adjusted census data.

<i>Income Category</i>	<i>Tract Distribution</i>		<i>Percentage of Families by Tract</i>	<i>Percentage of Families by Income Level</i>
	<i>#</i>	<i>%</i>		
Low Income	1	5.0	0.7	21.1
Moderate Income	3	15.0	14.2	18.2
Middle Income	13	65.0	65.3	20.8
Upper Income	3	15.0	19.8	39.9
Total	22	100.0	100.0	100.0

⁶The 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.

Appendix

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.)