

PUBLIC DISCLOSURE

February 12, 1996

Date of Evaluation

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Yellowstone Bank, Columbus, Montana

Name of Depository Institution

093002700000

Identification Number of Institution

Columbus, Montana

Address of Institution

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

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

GENERAL INFORMATION

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

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

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

Several factors support the bank's satisfactory rating. First, the bank has maintained a reasonable loan-to-deposit ratio since the last evaluation. Second, a substantial majority of the bank's loans are located within its assessment area. Third, the bank has a reasonable distribution of loans to borrowers of different income levels and to small businesses. Finally, the bank has a reasonable distribution of loans within its assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	Yellowstone Bank, Columbus, Montana PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior evaluation.		

DESCRIPTION OF INSTITUTION

Based on a variety of factors, the bank is able to meet area credit needs in an effective manner. The bank's only office is in Columbus, Montana, a rural community of 1,573 residents. The bank operates an automated teller machine at its office in Columbus.

The bank's size supports its ability to meet credit needs in its assessment area. Based on its December 31, 1995, Report of Condition ("ROC") information, the bank had total assets of about \$38 million. Since December 1994, the bank's assets have increased approximately \$2.7 million. As of December 31, 1995, approximately 31% of the bank's loan portfolio is agricultural loans. Another 18% of the portfolio consists of agricultural real estate loans. The remainder of the portfolio contains 19% consumer real estate, 14% commercial real estate, 8% consumer, and 1% other loans. This loan distribution has changed little since the previous evaluation.

The bank offers a variety of loan products that seem appropriate for a rural bank its size. The bank provides many types of loans in each of the following categories: agricultural, consumer, real estate, and commercial. The bank also provides more complicated real estate loan products through an affiliated bank in Billings, Montana. Although the affiliate bank books the loans, the bank in Columbus assists individuals during the application process.

DESCRIPTION OF THE ASSESSMENT AREA FOR YELLOWSTONE BANK, COLUMBUS, MONTANA

The bank's assessment area includes Stillwater County and portions of Carbon and Golden Valley counties, an area approximately 35 miles west of Billings in south-central Montana. The assessment area includes Stillwater County's four block numbering areas ("BNA") (9662, 9663, 9664, and 9665), one BNA in Carbon County (9655), and one BNA in Golden Valley County (9681). According to 1990 census data, the assessment area has 7,899 residents, 1,573 of whom live in Columbus.

Five of the assessment area's BNAs are categorized as middle income, and the remaining BNA (9655) is considered moderate income. The vast majority of the assessment area's residents (77%) live in three middle-income BNAs (9663, 9664, and 9665). The moderate-income BNA is south of the bank in Carbon County; its 817 residents comprise only 10% of the assessment area's total population. The median household income for the assessment area is \$21,639. Of the 3,088 total households in the assessment area, approximately 23% are low income, 18% are moderate income, 17% are middle income, and 42% are upper income. Approximately 15% of the households have incomes below the poverty level.

Agriculture is a primary factor in the assessment area's economy. According to community contacts and bank employees, cattle ranching and wheat farming are the region's primary agricultural activities. As is the case in other parts of Montana, recent low cattle prices have had a negative effect on the region's cattle industry.

Despite its rural nature, many residents have relatively high-paying jobs. According to one community contact, the area's biggest employer, a mining company, employs approximately 450 well-paid individuals. Other major employers include a silversmith company and a restaurant/motel/casino operation. According to bank staff, Stillwater County suffers from a housing shortage. Apparently, many mine employees commute long distances to their jobs in southern Stillwater County. A community contact noted that

housing values have continued to increase because of demand for local housing by mine employees and retirees.

Examiners contacted several members of the community as part of the bank's CRA evaluation. Information from these contacts was used in evaluating the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

Loan-to-Deposit Ratio Analysis

The bank's loan-to-deposit ratio is reasonable considering area credit needs. As such, it meets the standards for satisfactory performance. Since the previous evaluation, the quarterly average of the bank's loan-to-deposit ratios is 51%. The ratios have ranged from a high of 55% as of the June 30, 1995, ROC, to a low of 46% as of the September 30, 1994, ROC. Although the quarterly ratios reflect some seasonal agricultural borrowings during spring and summer months, they have remained relatively constant since the previous evaluation. Although loans have increased, deposits also have increased since the previous evaluation. Bank management attributes some of the increased lending to low cattle prices; cattle customers must borrow more funds during periods of low prices.

Compared with its main competitor in Absarokee, Montana, the bank's average loan-to-deposit ratio is lower. The competitor's quarterly average of its loan-to-deposit ratios since June 1994 is 62%; its quarterly ratio has been either 64% or 65% during the past four quarters.

As discussed previously, the bank has a referral arrangement with an affiliated bank in Billings for its customers interested in secondary-market real estate loans. According to bank management, although the Billings bank processes and books the loans, the bank handles the application process for the borrowers and considers them its own customers. In 1995, the Billings bank originated a significant number of such loans for Columbus customers. Including these loans in the bank's December 1995 loans increases that quarter's loan-to-deposit ratio several percentage points.

One community contact described the bank as an active agricultural lender. Another contact commented that a competitor bank is a more active small business lender.

Lending in Assessment Area

Based on a statistical sample of loans, the bank made a substantial majority of its loans within its assessment area. Based on a sample of loans made within six months of this evaluation, the bank made 92% of its consumer and 74% of its commercial and agricultural loans within its assessment area. Approximately 87% of a sample of consumer real estate loans made since January 1995 went to residents of its assessment area.

Although the percentage of the total number of commercial and agricultural loans in the assessment area is lower (74%), the percentage of the total dollar volume of such loans in the assessment area is relatively high at 83%. The percentage of the total number of loans is lower because the bank made several relatively

small commercial and agricultural loans to residents outside the area. Of the total commercial and agricultural loans in the sample made outside the assessment area, more than two-thirds had loan amounts of less than \$10,000.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

The bank has a reasonable record of lending to borrowers of different income levels and to businesses of different sizes. CRA categorizes income levels into four groups: low income, moderate income, middle income, and upper income. Because the bank's assessment area is not located in a metropolitan statistical area, a borrower's or BNA's income category is determined relative to the statewide nonmetropolitan median family income of \$27,352. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median income. An individual with an income that is 120% or more of the statewide nonmetropolitan median income is considered an upper-income person. BNAs and census tracts are classified using similar categories based on the level of the median family income in the geography.

The following chart shows the percentage of consumer real estate and consumer loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
CONSUMER REAL ESTATE				
Percent of Total Number of Loans	15%	24%	12%	50%
Percent of Total Amount of Loans	2%	24%	10%	64%
CONSUMER				
Percent of Total Number of Loans	21%	26%	26%	26%
Percent of Total Amount of Loans	9%	26%	33%	32%

As shown above, the bank made a reasonable percentage of its consumer and consumer real estate loans to borrowers of different income levels. Although the bank provided half of its consumer real estate loans to upper-income borrowers, this seems reasonable given the demand for housing within the bank's assessment area. With housing in short supply, real estate borrowers tend to have higher incomes. In addition, the number of consumer real estate loans to upper-income borrowers closely approximates the number of upper-income borrowers living in the assessment area. As discussed under the Description of the Assessment Area section, about 42% of the area's residents are upper income. This percentage is slightly lower than the percentage of bank consumer real estate loans made to upper-income borrowers. As such, the bank's real estate lending patterns appear reasonable.

In contrast, the bank made a larger percentage (47%) of its consumer loans to low- and moderate-income borrowers. Approximately 41% of the area's residents are low- and moderate-income; only 17% are middle-income. The bank made the same percentage (26%) of consumer loans to middle- and upper-income borrowers. These lending patterns also appear reasonable given the assessment area's demographics.

The bank provides almost all its commercial and agricultural loans to small businesses and farms. All 53 assessment area borrowers in the sample had gross annual revenues of less than \$1 million. Almost all of these borrowers received loans for amounts less than \$100,000. Specifically, 87% of the assessment area commercial and agricultural borrowers received loans for less than \$100,000. In fact, almost half of the commercial and agricultural borrowers received loans for less than \$10,000. Only 9% of the borrowers

received loans of at least \$100,000 but less than \$250,000 and only 4% received loans between \$250,000 and \$1 million. The largest loan in the sample was for approximately \$320,000.

Geographic Distribution of Loans

The distribution of the bank's loans throughout the BNAs in its assessment area is reasonable and meets the standard for satisfactory performance. As discussed under the Description of the Assessment Area section, the assessment area has one moderate-income BNA and five middle-income BNAs. The bank made 8% of its commercial and agricultural loans and 3% of its consumer real estate loans in the moderate-income BNA. However, the bank made 19% of the total dollar volume of commercial and agricultural loans in the moderate-income BNA. The bank made no consumer loans in this BNA. As such, almost all the bank's loans were made in middle-income BNAs.

Although the percentage of loans in the moderate-income BNA appears low, it seems reasonable given the population distribution in the assessment area. As discussed previously, the assessment area's moderate-income BNA has only 10% of the area's total population. In addition, residents of this BNA live closer to Absarokee, Montana, which has two banking institutions. One of these banks is an affiliated bank. Bank management also stated that several long-time agricultural borrowers in the BNA remained bank customers after the Absarokee banks opened in 1963, despite the fact they lived closer to the Absarokee institutions.

General

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