

## **PUBLIC DISCLOSURE**

June 29, 1998  
Date of Evaluation

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## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Glacier Bank of Eureka  
Name of Depository Institution

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093003550000  
Identification Number of Institution

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Eureka, Montana  
Address of Institution

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Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue  
Minneapolis, Minnesota 55401-1804

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 Glacier Bank of Eureka, Eureka, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of June 29, 1998. 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 “Outstanding.”

Several factors support rating the bank’s CRA performance as outstanding. First, the bank’s lending to borrowers of different income levels and to businesses of different sizes reflects excellent penetration of all income levels. The number of consumer loans and residential real estate loans extended to low- and moderate-income borrowers is particularly noteworthy. Second, the bank’s net loan-to-deposit ratio indicates that the bank is actively extending loans in its assessment area. Third, a substantial majority of the bank’s loans are originated within the assessment area. Finally, the bank’s qualified community development services, especially in regard to the Glacier Affordable Housing Foundation (“GAHF”), assist low- and moderate-income borrowers attain home ownership.

## **DESCRIPTION OF INSTITUTION**

Based on its size and financial condition, the bank meets the credit needs of the communities in its assessment area effectively. The bank received a satisfactory rating at the conclusion of its last CRA performance evaluation. The Office of the Comptroller of the Currency conducted this evaluation in September 1996. The bank became a member of the Federal Reserve System on December 24, 1997 ("membership date"). It is an affiliate of Glacier Bancorp, Inc., a multibank holding company located in Kalispell, Montana. The bank's sole office is located in Eureka, Montana. In addition, it operates one automated teller machine ("ATM") located at the bank. The ATM is available 24 hours a day. Bank customers may also conduct banking business at any of the affiliated bank offices, which are located throughout the state. The bank's lobby hours are 10:00 a.m. to 4:00 p.m. Monday through Friday. The bank's drive-up facility is open from 9:00 a.m. to 5:00 p.m. Monday through Thursday, 9:00 a.m. to 5:30 p.m. Friday, and 9:00 a.m. to 1:00 p.m. Saturday. The bank has not opened or closed any offices since its membership date. This evaluation covers the time period since the bank's last evaluation in September 1996.

According to the March 31, 1998, Report of Condition ("ROC"), the bank's assets totaled \$25.4 million. Loan and deposit growth have been steady. The ROC data indicate the bank's major loan categories are commercial loans, 42%; residential real estate loans, 33%; and consumer loans, 24%.

The bank offers a variety of loan products designed to meet the assessment area's credit needs. It extends commercial, conventional residential real estate, and consumer loans. The bank refers most of its residential real estate purchase loans to the holding company's lead bank, Glacier Bank, Kalispell, Montana. The majority of these loans are then sold on the secondary market. Applications are received in Eureka, and the bank's loan officers prepare the initial documents for the borrowers as well as answer any questions about the loan process. The loans are typically closed in Eureka. This arrangement provides residents of the assessment area access to a wide variety of real estate loan products, including loans that are offered through the Montana Board of Housing ("MBOH") and Rural Development. These loans are specifically directed to low- and moderate-income borrowers.

## **DESCRIPTION OF GLACIER BANK OF EUREKA'S ASSESSMENT AREA**

The bank has defined its assessment area as block numbering area ("BNA") 9976 in Lincoln County, Montana. The assessment area is located in the northwestern corner of the state. Communities in the assessment area include Eureka, Rexford and Fortine. According to 1990 U.S. Census data, the population in the assessment area is 4,166. The 1990 population figures for Eureka and Rexford are 1,043 and 132, respectively. According to July 1996 census estimates, these same figures were 1,108 and 145. Fortine is an unincorporated community; therefore, accurate population data is not available.

In addition to discussions with bank management, examiners contacted a member of the local business community and an individual familiar with economic development in the assessment area. Information received from these contacts and bank management was used to help evaluate the bank's CRA performance.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank is not located in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. CRA defines low-income individuals as those with incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this

amount. The regulation defines middle-income individuals as people with incomes of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes of 120% or more of the statewide nonmetropolitan median family income are considered upper-income individuals. BNAs are classified using similar categories based on the level of the median family income in the geography.

According to the 1990 census data, the assessment area's median family income is \$22,521, while the median household income is \$20,000. The statewide nonmetropolitan median family income was \$27,352 in 1990 and the estimated 1998 nonmetropolitan median family income was \$36,100. The distribution of families and households in the assessment area by income level as of the 1990 census is shown in the following table.

Assessment Area	Low Income		Moderate Income		Middle Income		Upper Income	
	#	%	#	%	#	%	#	%
Households	394	25.6	283	18.4	334	21.7	529	34.4
Families	278	24.1	272	23.5	284	24.6	321	27.8

In the assessment area, 17.3% of the households and 14.3% of the families have incomes below the poverty level. These figures are higher than the statewide nonmetropolitan figures of 16.5% and 12.8%, respectively. The percentages of low- and moderate-income households and families in the assessment area are also higher than the statewide nonmetropolitan areas in Montana. Approximately 44% of the households and 48% of the families in the assessment area are considered low and moderate income, compared with 40% and 38%, respectively, for the statewide averages.

The bank's assessment area consists of one middle-income BNA in north Lincoln County. The median income of the BNA according to 1990 census data is 82.3% of the nonmetropolitan median income for the state of Montana. As stated previously, middle income is defined as 80% to 120% of the statewide nonmetropolitan median income.

The census data state that there are 1,540 households in the assessment area. There are 2,050 housing units in the assessment area, of which approximately 55% are owner occupied, 20% are rental units, and 25% are vacant. The high number of vacant units could be misleading, as vacation homes are included in this category. According to 1990 census data, 21% of the housing units in the assessment area are mobile homes. In a 1997 housing study conducted by the Tobacco Valley Economic Development Council, it was noted that 9 of 10 respondents were homeowners; however, almost 20% of the respondents lived in mobile homes. The mobile-home households were more likely to be low-income households with children.

Timber and tourism are the two primary economic factors in the assessment area. Both industries are seasonal in nature. According to bank management, it is not unusual for many businesses in the area to earn most of their revenue in the summer. The unemployment rate in Lincoln County is historically one of the highest in Montana. According to May 1998 statistics released by the Montana Department of Labor, the seasonally unadjusted unemployment rate for the county was 13.8%. The unemployment rate for the state of Montana for the same time period is 5.1%. According to information provided by bank management, 80% of the land in Lincoln County is publicly owned. This high percentage of public lands limits large business development. Due to the high percentage of publicly owned land, area residents are concerned about increasing government intervention regarding land-use requirements. The assessment area is considered part of the inland Columbia River Basin. In early 1998, a draft environmental impact

study was issued for public comment. Based on some of the initial recommendations in the plan, some timber operations could be adversely affected as a result of changes in forest management practices. Some recreation areas in the assessment area could also be closed for wildlife management purposes. Because of the uncertain future of the timber industry, bank management and the community contacts believe that small business development is the key to the continuing viability of Eureka and the surrounding area. In addition, because Eureka is located less than 10 miles from the Canadian border, Canadians provided a significant portion of the tourism revenue. The weak Canadian dollar, however, has caused a large decrease in tourism revenue.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done an outstanding job of meeting the credit needs of its assessment area. Much of the analysis on the following pages is based on a statistical sample of loans originated by the bank since the previous evaluation. The following chart shows the number of loans originated by the bank by dollar amount and number since September 1996.

<b>GLACIER BANK OF EUREKA LOAN ORIGINATIONS SINCE SEPTEMBER 1996</b>				
<b>Loan Type</b>	<b>Total Number of Loans</b>	<b>%</b>	<b>Total Amount of Loans</b>	<b>%</b>
Residential Real Estate*	103	23	\$2,854,465	31
Consumer	255	56	\$1,575,254	17
Commercial	80	18	\$3,433,263	37
*Does not include purchase money loans.				

Based on the volume and dollar amount of loan activity for the three loan categories, a statistical sample of each category was selected for analysis. Examiners reviewed 60 consumer, 50 residential real estate, and 41 commercial loans. The bank's residential real estate lending received the greatest weight in the loan analysis. The overall rating was based on the strength of the bank's lending to borrowers of different income levels, the strong level of lending activity, and the bank's role in developing affordable housing loan options for residents of the assessment area.

## LOAN-TO-DEPOSIT RATIO ANALYSIS

Based on its strong net loan-to-deposit ratio and its lending-related activity, the bank significantly exceeds the standards for satisfactory performance in this category. In the seven quarters since the previous evaluation, the bank's net loan-to-deposit ratio has averaged 89.6%. The following table, based on ROC data, illustrates the bank's strong level of lending. Because many of the seasonal businesses in the area depend on the summer tourist traffic for most of their annual revenue, deposits tend to increase during the summer months and then decrease through the winter months.

<b>DATE</b>	<b>DEPOSITS (In thousands)</b>	<b>NET LOANS (In thousands)</b>	<b>NET LOAN-TO- DEPOSIT RATIO</b>
March 31, 1998	\$17,244	\$16,618	96.4%
December 31, 1997	\$16,398	\$16,289	99.3%
September 30, 1997	\$17,798	\$16,387	92.1%
June 30, 1997	\$17,054	\$15,903	93.3%
March 31, 1997	\$17,475	\$15,374	87.9%
December 31, 1996	\$18,555	\$15,430	83.2%
September 30, 1996	\$20,764	\$15,630	75.3%

The bank's primary competition is a branch office of First Interstate Bank, Billings, Montana, a large statewide financial institution. Loan-to-deposit data is not available for the branch office. When compared with other similar financial institutions in the region, the bank's strong level of lending is favorable. The following chart shows the asset size and average net loan-to-deposit ratio for the bank and similarly situated institutions in the area since September 1996.

<b>BANK</b>	<b>TOTAL ASSETS As of March 31, 1998 (In thousands)</b>	<b>QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO</b>
Glacier Bank of Eureka Eureka, Montana	\$25,404	89.6%
Glacier Bank of Whitefish Whitefish, Montana	\$41,737	71.6%
BankWest, National Association Kalispell, Montana	\$45,311	82.7%
First Citizens Bank, National Association Columbia Falls, Montana	\$35,254	70.9%
Montana First National Bank Kalispell, Montana	\$14,345	78.2%
First Security Bank of Kalispell Kalispell, Montana	\$44,294	78.8%

As the data in the table illustrate, the bank's lending levels are significantly higher than those of other small financial institutions in the area. In addition to the financial institutions shown above and the First Interstate branch, the bank also competes with the Whitefish Credit Union, Whitefish, Montana. When compared with national averages, the bank's loan activity is also viewed favorably. Based on the March 31, 1988, Uniform Bank Performance Report data, the bank's net loan-to-deposit ratio of 96.4% placed the bank in the 98th percentile in comparison with its peers. The national average net loan-to-deposit ratio for the peer group was 64.4%.

The bank's consistently strong level of lending reflects excellent responsiveness to the assessment area's credit needs and significantly exceeds the standards for satisfactory performance in this category.

**COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA**

Based on the significant majority of loans originated within the bank’s assessment area, the bank’s performance in this category exceeds the standards for satisfactory performance. The following table shows the percentage of loans within the assessment area based on total number and dollar amount in each loan category reviewed.

<b>LOANS ORIGINATED WITHIN THE ASSESSMENT AREA</b>		
<b>Loan Type</b>	<b>Total Number of Loans</b>	<b>Total Amount of Loans</b>
Consumer	100%	100%
Residential Real Estate	94%	93%
Commercial	93%	89%

As the data in the table indicate, the bank made all of its consumer loans in the assessment area and a substantial majority of the residential real estate and commercial loans in the assessment area. Based on the high percentages of loans originated in the assessment area, the bank exceeds the standards for satisfactory performance in this category.

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

The bank’s level of lending to borrowers of different income levels and to businesses of different sizes significantly exceeds the standards for satisfactory performance. The following table shows the percentages of consumer and residential real estate loans made to borrowers of different income levels.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*</b>				
<b>Loan Type</b>	<b>Low-Income Borrowers</b>	<b>Moderate-Income Borrowers</b>	<b>Middle-Income Borrowers</b>	<b>Upper-Income Borrowers</b>
<u>Consumer</u>				
Total Number of Loans	25%	29%	25%	21%
Total Amount of Loans	5%	26%	23%	46%
<u>Residential Real Estate</u>				
Total Number of Loans	18%	41%	11%	30%
Total Amount of Loans	16%	38%	15%	32%
*Income level based on Montana’s 1998 nonmetropolitan statistical area median family income of \$36,100.				

As previously mentioned, low-income households and families represent 26% and 24% of the assessment area’s population, respectively. Moderate-income households and families represent 18% and 24% of the assessment area’s population, respectively.

The data in the table indicate that the bank originated a majority of its consumer loans, 54%, to low- and moderate-income borrowers. Perhaps more significant is that while 25% of the number of loans was

originated to low-income borrowers, this represents only 5% of the total amount of consumer loans. This figure indicates the bank's willingness to extend small-dollar loans to meet the needs of the low-income residents of its assessment area.

The residential real estate data show that the bank also extended a majority of its loans, 59%, to low- and moderate-income borrowers. This figure significantly exceeds the demographic distribution of low- and moderate-income residents in the assessment area. Bank management has taken a proactive approach to ensure that low- and moderate-income residents of the assessment area are aware of the home ownership opportunities that are available. This will be discussed in detail subsequently in the Services section of the evaluation. Not included in the figures are the home purchase loans that the bank refers to its affiliate in Kalispell, Montana. Typically these loans are for first-time homebuyers and use programs established by MBOH and Rural Development. These loan programs are specifically directed to low- and moderate-income borrowers.

The bank has a good distribution of small business loans to businesses of different sizes. The bank makes the majority of its small business loans to entities with gross annual revenues of \$1 million or less. For the purposes of this evaluation, small business loans are most commercial loans with original principal amounts of \$1 million or less. The loan sample reveals that the bank originated 78% of its small business loans to entities with gross annual revenues of \$1 million or less. Of loans to these entities, 81% were for amounts of \$100,000 or less.

Overall, the bank's lending to individuals of different income levels and to businesses of different sizes is excellent. The majority of the bank's consumer and residential real estate lending is extended to low- and moderate-income borrowers. The bank's level of residential real estate lending to low- and moderate-income borrowers is particularly noteworthy for its asset size and reflects excellent responsiveness to the credit needs of all members of its community. The bank significantly exceeds the standards for satisfactory performance in this category.

#### GEOGRAPHIC DISTRIBUTION OF LOANS

Since the bank's assessment area consists of one middle-income BNA, an analysis of the geographic distribution of loans would not be meaningful. Bank management did not indicate there were any specific areas that contained concentrations of low- and/or moderate-income individuals.

#### SERVICES

The bank has an excellent record of helping to meet the credit needs of its assessment area through services that benefit low- and moderate-income individuals.

The bank is very effective in delivering retail banking services to low- and moderate-income individuals. The bank offers free checking accounts and 24-hour, toll-free telephone banking. Through the telephone banking service, customers can make checking and savings account inquiries and transfers between accounts. In addition, credit customers can make loan payments using the telephone banking service. The bank and its affiliates operate an interbank system that permits customers to make deposits, cash checks, and make loan payments at any of the 16 offices located throughout Montana.

With respect to community development services, the bank has done an excellent job in assisting low- and moderate-income residents achieve home ownership. In April 1997, the bank was awarded a \$10,000 grant from the Federal Home Loan Bank ("FHLB"), Seattle, Washington. The grant funds were used to write a grant, which resulted in approximately \$398,000 in funds to the GAHF. GAHF was created in



1995 by the bank to provide financial assistance to low- and moderate-income first-time homebuyers. The funds awarded to GAHF are used to provide down-payment assistance for the residents of Lincoln County. The grant funds are available to low- and moderate-income first-time homebuyers as interest-free loans. The loans are repaid only when the borrower sells the home. The bank also sponsored two public hearings in Eureka for area residents to discuss housing needs. The information gathered from the hearings was also included in the grant application.

In November 1997, the Tobacco Valley Economic Development Council published a study on housing needs in north Lincoln County. This study was also funded by the \$10,000 grant awarded to the bank by the FHLB. The results of the study were used to support the down-payment assistance grant request.

The bank conducted a housing seminar in 1997 for low- and moderate-income county residents to acquaint them with the home ownership options available to them. The programs discussed loan program guidelines and available homebuyer education programs.

The bank's level of community development services is commendable and demonstrates a strong commitment to serving the assessment area. These activities enhance the bank's overall CRA performance and contribute to its outstanding rating.

#### GENERAL

The bank has not received any CRA-related complaints since its previous evaluation. The evaluation did reveal procedural violations of the technical requirements of Regulation B--Equal Credit Opportunity Act. The violations noted did not reflect evidence of illegal discrimination. Bank management promised to take prompt action to correct the violations.