

## **PUBLIC DISCLOSURE**

September 18, 2018

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

First Security Bank of Malta  
130 South First Street East  
Malta, Montana 59538  
RSSD 651457

**Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue, P.O. Box 291  
Minneapolis, MN 55480-0291**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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*Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.*

**INSTITUTION’S CRA RATING:** This institution is rated Satisfactory.

Examiners evaluated the Community Reinvestment Act (CRA) performance for First Security Bank of Malta, Malta, Montana using the Small Bank CRA Examination Procedures. Based on the bank’s asset size and financial condition, the bank effectively meets the credit needs of small farms and consumers in its assessment area. The factors that support the bank’s Satisfactory rating include:

- The bank’s lending to farms of different sizes and to borrowers of different incomes is reasonable.
- The bank originated a majority of loans inside its assessment area.
- The loan-to-deposit ratio is reasonable based on the bank’s size and financial condition as well as the credit needs of the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

The bank received a Satisfactory rating at the previous CRA evaluation dated August 11, 2014.

**SCOPE OF EVALUATION**

The scope of the evaluation covers the bank’s major product lines, which are small farm and consumer loans. As shown in Table 1, these loans represent a significant percentage of the number and dollar amount of the bank’s lending activity.

<b>TABLE 1<sup>1</sup></b>				
<b>Loan Originations From January 2017, Through December 2017</b>				
<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Consumer	355	77.2%	1,896,783	12.8%
Small Business (≤ \$1 million)	37	8.0%	2,580,658	17.5%
Small Farm (≤ \$500,000)	64	13.9%	6,857,351	46.5%
Agricultural (> \$500,000)	4	0.9%	3,421,000	23.2%
<b>Total</b>	<b>460</b>	<b>100.0%</b>	<b>14,755,792</b>	<b>100.0%</b>

Examiners based the evaluation of the bank’s performance on a statistical sample of 49 farm loans originated between January 1, 2017, and December 31, 2017, and 107 consumer loans originated between July 1, 2017, and December 31, 2017.

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

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

Of the five core criteria, examiners place the greatest weight on the bank’s lending to farms of different sizes and to borrowers of different income levels followed by lending inside the assessment area. The net

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

loan-to-deposit ratio and the geographic distribution were weighted equally. By product, examiners placed the greatest weight on small farm loans due to the level of lending activity and loan portfolio composition.

This evaluation is based on information from bank management and from community contacts. Examiners interviewed individuals familiar with the economic and demographic characteristics of the bank's assessment area. The CRA evaluation period is from August 11, 2014, to September 17, 2018.

## DESCRIPTION OF INSTITUTION

*Officers and Delivery Systems.* First Security Bank of Malta is a single brick-and-mortar operation located in Malta. The bank also maintains ATMs at its main office and at two local businesses. The bank offers Internet banking to its customers, which includes the ability to review accounts, set up account alerts, and transfer funds.

*Loan Portfolio.* According to the June 30, 2018, Report of Condition, the bank's assets total \$34.8 million. The bank has a total loan portfolio of \$18.8 million. The loan portfolio consists of approximately 64.7% agricultural, 17.5% commercial, 15.9% consumer, 1.7% residential real estate, and 0.1% other type loans. The loan portfolio composition is similar to the composition of the previous evaluation.

*Credit Products.* The bank offers traditional, relatively noncomplex products to help meet the needs of farms, businesses, and consumers in its assessment area. The bank participates in commercial and agricultural loans programs through the Farm Services Agency, Bureau of Indian Affairs, and the U.S. Small Business Administration. A majority of the bank's consumer loans are closed end, with 52.5% of this volume being unsecured. The unsecured loans include the bank's no-interest Christmas loan program, which is offered in partnership with the Malta Chamber of Commerce.

*Market Share.* According to the June 30, 2018, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank has 18.4% deposit market share, ranking it second of three financial institutions in the assessment area. Competitors in the county include the First State Bank of Malta, with 68.9% of the market, and Independence Bank, Havre, Montana with 12.7% of the market.

## DESCRIPTION OF ASSESSMENT AREA

The bank's assessment and trade area encompasses all of Phillips County, located in northeastern Montana. The assessment area includes a single census tract listed as middle income and underserved. The city of Malta is the county seat for Phillips County, with nearly half of the total assessment area population residing in the city. The assessment area includes a small part of the Fort Belknap Indian Reservation, which is sparsely populated. The population center for the reservation, Fort Belknap Agency, Montana, is approximately 40 miles west of Malta. The town of Harlem, in Blaine County, is located approximately four miles from the agency; residents of the Fort Belknap Indian Reservation travel to Harlem for banking services. The bank has not changed its assessment area since the previous examination.

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

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

<b>TABLE 2</b>								
<b>Assessment Area Demographics</b>								
<b>Income Categories</b>	<b>Tract Distribution</b>		<b>Families by Tract Income</b>		<b>Families &lt; Poverty Level as % of Families by</b>		<b>Families by Family Income</b>	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	343	28.5
Moderate-income	0	0.0	0	0.0	0	0.0	246	20.4
Middle-income	1	100.0	1,204	100.0	176	14.6	248	20.6
Upper-income	0	0.0	0	0.0	0	0.0	367	30.5
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>1</b>	<b>100.0</b>	<b>1,204</b>	<b>100.0</b>	<b>176</b>	<b>14.6</b>	<b>1,204</b>	<b>100.0</b>
	<b>Housing Units by Tract</b>	<b>Housing Types by Tract</b>						
		<b>Owner-Occupied</b>			<b>Rental</b>		<b>Vacant</b>	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	2,315	1,308	100.0	56.5	500	21.6	507	21.9
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>2,315</b>	<b>1,308</b>	<b>100.0</b>	<b>56.5</b>	<b>500</b>	<b>21.6</b>	<b>507</b>	<b>21.9</b>
	<b>Total Businesses by Tract</b>	<b>Businesses by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
		#	%	#	%	#	%	#
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	223	100.0	189	100.0	25	100.0	9	100.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>223</b>	<b>100.0</b>	<b>189</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>	<b>9</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>			<b>84.8</b>		<b>11.2</b>		<b>4.0</b>	
	<b>Total Farms by Tract</b>	<b>Farms by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
		#	%	#	%	#	%	#
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	105	100.0	105	100.0	0	0.0	0	0.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>105</b>	<b>100.0</b>	<b>105</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>			<b>100.0</b>		<b>0.0</b>		<b>0.0</b>	

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

*Population.* According to the 2017 FFIEC adjusted census data, the population of the assessment area is 4,167, a decline of 2.0% since the last evaluation. A majority of the population (85%) is white, with an American Indian population of 9.4%. The Hispanic population is 2.1% and other minorities comprise less than 1.0% of the population. Based on 2017 FFIEC adjusted census data, 28.5% of the assessment area's families are low income, 20.4% are moderate income, and 14.6% of the families live below the poverty line.

*Economy.* Bank management and the community contacts stated that the assessment area's economy is highly dependent on agriculture. In previous years, oil production had a small impact on the local economy, but this has lessened. The agriculture industry has experienced issues due to weather conditions such as drought and untimely rains during planting and harvest. The industry drives the local economy, and many of the local residents are involved in farming. Farm operations are typically family-owned businesses that raise cattle and grow pulse crops, such as chickpeas and lentils. Other major employers include the school district and local and federal government agencies. The contacts indicated that there are few manufacturing or other trade jobs in the area.

Bank management and community contacts also indicated the unemployment rate is less than the national and state level for unemployment. According to the Bureau of Labor Statistics, the national nonseasonally adjusted unemployment rate for August 2018 was 3.9%, the state of Montana was 3.2%, and Phillips County was 3.1%.

The community contacts did not list affordable housing as a major concern. The primary concerns in the assessment area are the need for jobs to keep the younger generation in the area, infrastructure issues, and the difficulties attracting new businesses to the area.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's performance in meeting the credit needs of its assessment area is rated Satisfactory. Overall, the bank's lending to farms of different sizes and to borrowers of different income levels is reasonable. The bank originated a majority of its loans inside the assessment area. In addition, the net loan-to-deposit ratio and geographic distribution of loans are also reasonable.

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

Overall, the bank's lending to farms of different sizes and to borrowers of different income levels is reasonable. The bank's lending to farms with gross annual revenues of \$1 million or less is reasonable, and consumer lending to low- and moderate-income borrowers is excellent.

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

<i>Small Farm Loans</i>	≤ <i>\$100,000</i>	<i>&gt; \$100,000 to ≤ \$250,000</i>	<i>&gt; \$250,000 to &lt; \$500,000</i>	<i>Total Originations</i>
Percentage of All Small Farm Loans	53.7%	31.7%	14.6%	100.0%
Percentage of Loans to Farm with Revenues of \$1 Million or Less	53.8%	30.8%	15.4%	95.1%

According to the 2017 FFIEC Dun & Bradstreet data, 100.0% of the farms in the assessment area have gross annual revenues of \$1 million or less. The bank originated 95.1% of its small farm loans to farms with revenue of less than \$1 million, which is generally consistent with demographics. In addition, the bank originated 53.7% of its loans to borrowers requesting less than \$100,000, which helps meet the credit needs of small farming operations.

*Consumer Lending.* The bank’s lending to low- and moderate-income borrowers is excellent, particularly to low-income borrowers. Table 4 shows the bank’s consumer lending in the assessment area.

<i>Loan Type Sample</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$	#	\$
Consumer Loans	58.2%	27.5%	24.2%	18.5%	8.8%	17.5%	8.8%	36.5%
<b><i>Demographic Data</i></b>								
Percentage of Households**	30.8%		19.8%		16.0%		33.5%	
*Median family income for the assessment area was \$60,500 for 2017.								
**Based on 2017 FFIEC census data.								

The consumer distribution is excellent based on the number of loans and dollar amount of loans produced in the assessment area. The bank originated 58.2% of its consumer loans to low-income borrowers, which significantly exceeds the percentage of low-income households in the assessment area (30.8%). The bank also made 24.2% of its consumer loans to moderate-income borrowers, which is slightly higher than the percentage of moderate-income households in the area (19.8%). In addition, the bank provides small-dollar loans that help to serve the needs of low- and moderate-income borrowers. Of the loans sampled, 73.6% were for amounts of \$3,000 or less. Of these small-dollar loans, 98.5% were to low- and moderate-income borrowers. Overall, the bank’s lending to low- and moderate-income borrowers is excellent.

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

The bank originated the majority of its loans inside its assessment. Table 5 details the lending activity by loan type inside and outside the assessment area.

<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Small Farm	41	83.7	5,095	85.5	8	16.3	867	14.5
Consumer	91	85.0	418	82.4	16	15.0	90	17.6
<b>Total</b>	<b>132</b>	<b>84.6</b>	<b>5,513</b>	<b>85.2</b>	<b>24</b>	<b>15.4</b>	<b>957</b>	<b>14.8</b>

The bank originated a majority of its loans inside the assessment area by number and dollar volume, 84.6% and 85.2%, respectively. The bank maintains relationships with borrowers who have moved to nearby areas or those with family ties to the assessment area, which is reflected in some of the loans located outside the assessment area.

#### LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable based on the size and financial condition of the bank and the credit needs of the assessment area. The bank's 17-quarter average net loan-to-deposit ratio is 65.1%, which is similar to the ratio of 60.5% at the previous evaluation. The 17-quarter net loan-to-deposit ranged from 51.3% to 76.2%. The ratio is cyclical due to the bank's agricultural focus. The low point for lending is in December, when most agricultural loans are paid off or paid down. In addition, the bank experiences occasions when a major borrower pays off a loan, which emphasizes the need to locate an equivalent borrower.

As of June 30, 2018, the bank's net loan-to-deposit ratio is 60.2%, which compares well to the national peer group net loan-to-deposit ratio of 64.9%. The bank's national peer group includes all insured commercial banks having assets of less than \$50 million with one full-service office and not located in a metropolitan statistical area. Local competition includes larger community banks as well as lending cooperatives such as Farm Credit Services. There are no similarly situated financial institutions operating in the bank's assessment area for comparison purposes.

Community contacts indicated that, overall, local financial institutions are meeting credit needs. The bank's net loan-to-deposit ratio indicates that the bank is actively lending and is reasonable.

#### GEOGRAPHIC DISTRIBUTION OF LOANS

The overall geographic distribution is reasonable and does not reveal any unexplained gaps in lending. The bank has only one assessment area encompassing all of Phillips County, with a single census tract listed as middle income. There are no low- or moderate-income census tracts in the assessment area. Bank management and community contacts did not identify any concentrations of low- or moderate-income families or households in the assessment area. The bank actively lends throughout the assessment area.

#### RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints concerning the bank since the previous evaluation.



## **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The examination did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B – Equal Credit Opportunity Act and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

## Appendix A

### Glossary of Common CRA Terms

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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