



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 3, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Ruby Valley National Bank
Charter Number 11008
107 S. Main Street
Twin Bridges, MT 59754**

**Comptroller of the Currency
ADC - Montana, Wyoming, Idaho & Utah
490 North 31st Street Suite 220
Billings, MT 59101**

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 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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INSTITUTION'S CRA RATING

This institution is rated Outstanding.

The bank's CRA performance depicts an outstanding practice of providing for the credit needs of their assessment area. The following supports this rating:

- The average loan-to-deposit ratio reflects a strong responsiveness to community credit needs and is substantially higher than similarly situated banks.
- A substantial majority of agricultural, commercial and consumer loans were originated within the banks assessment area.
- An analysis of loan originations revealed an excellent distribution among small farms and small businesses and to borrowers of different income levels.

DESCRIPTION OF INSTITUTION:

Ruby Valley National Bank (RVNB) is a small community bank operating in rural, southwest Montana. The bank's main office is located in Twin Bridges, with a branch office ten miles away in Sheridan, MT. The bank is wholly owned by Twinco; a one-bank holding company. The bank owns three ATMs located in Alder, Sheridan and Twin Bridges. RVNB's business focus is to provide a variety of credit and deposit services to support the needs of agricultural producers, consumers, and small businesses located within the assessment area (AA).

As of March 31, 2002, the bank had total assets of \$43.3 million. The percentage of net loans to total assets was 80 percent. The following table displays the breakdown of the bank's loan portfolio.

Loan Portfolio Mix
March 31, 2002

| Loan Type | Total Dollar Amount (000s) | Percentage of Loan Portfolio |
|---------------------------------|-------------------------------|------------------------------|
| Real Estate Loans | \$11,452 | 32.1% |
| Commercial and Industrial Loans | \$10,695 | 29.9% |
| Agricultural Loans | \$9,266 | 26.5% |
| Consumer Loans | \$3,556 | 10.3% |
| Other Loans | \$297 | 1.2% |
| Total Loans | \$35,266 | 100% |

The prior Community Reinvestment Act Performance Evaluation was dated December 18, 1997, with a "Satisfactory" rating.

The bank does not have any financial or legal impediments that prevent it from meeting the credit needs of the community/assessment area.

DESCRIPTION OF MADISON COUNTY:

Ruby Valley National Bank’s assessment area consists of Madison County, Montana. The assessment area is not part of a metropolitan statistical area (MSA). The county is comprised of five block-numbering areas (BNAs) all designated as middle income. The BNAs are: 9880 - Harrison, 9881 – Madison Valley (Ennis), 9882 – Twin Bridges, 9883 – Sheridan and 9884 – Virginia City. Virginia City is the county seat for Madison County. The 1990 Census lists the median housing cost for Madison County at \$60,170. However, local realtor statistics show the median cost is now up to \$87,500. The 2000 Census data shows that of the 3,902 housing units, 42 percent are owner occupied and 39 percent are vacant. It also lists the population of the AA at 6,857.

For 2002, the US Department of Housing and Urban Development (HUD) estimates the non-metropolitan, median family income (MFI) for Montana at \$39,600. The following table provides information on how each income level is defined. Also included in the table is the percent of families within each income level according to the 1990 Census data for Madison County.

**Madison County Income Distribution
1990 Census Data**

| Income Level | Percent of MFI | Income Range | Families | |
|-----------------|----------------|-----------------------|----------|---------|
| | | | Number | Percent |
| Low-Income | Less than 50% | <\$19, 820 | 345 | 21.0% |
| Moderate-Income | 51% - 80% | \$19,821 - <\$31,680 | 314 | 19.2% |
| Middle-Income | 81% - 120% | \$31,681 - < \$47,520 | 392 | 23.9% |
| Upper-Income | 121% and over | >\$47,521 | 589 | 35.9% |

The assessment area’s economy is largely dependent on agriculture. Livestock is the major agricultural product, with potatoes and small grains also contributing to total agricultural sales. Madison County’s largest industries, based on total number of employees for 2001, are services (28 percent), agriculture (21 percent), retail trade (17 percent) and construction (10 percent). The R. L. Winston Rod Company is one of the largest employers in Twin Bridges.

Bank competitors include two institutions. One institution is headquartered in Ennis and the other institution is located just outside the bank’s AA in Dillon. Two branches of regional banks are also located in Dillon. Other financial competition includes a credit union and Farm Credit Services.

Community contacts interviewed during this examination included a real estate broker and a county commissioner. They indicated the primary credit needs were agricultural and general consumer loan products, including auto loans, affordable housing, and general purpose loans. The contacts also stated the economic conditions in the local area have been negatively impacted by the drought and low agricultural commodity prices.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation of the bank's lending performance is based upon the review of loans originated in 2000, 2001 and 2002. The tables included in this section use cumulative data from these three years. We used reports prepared by management and validated their accuracy by randomly sampling 10 loans. Our sample concluded the reports were accurate.

We focused on the bank's primary loan types: agriculture, commercial and consumer. Bank management actively participates in loan programs offered by the Farm Service Agency, Small Business Association and low-interest home loans offered through national mortgage companies. The demand for home loans is not significant due to the rural economy and sparse population of the county. In addition, several of the homes are older or located on ranches and do not meet the secondary market needs. Housing units in the AA include 1-4 residential homes, multi-family units, and manufactured housing. RVNB is an agent for two nationwide mortgage companies that offer first-time home-buyer programs with lower interest rates. These companies also have programs that provide low-interest loans for remodeling homes to meet the specifications of the secondary market. The bank offers first time homebuyer seminars and assists interested borrowers with home loan applications.

Our analysis focused on agricultural loans, commercial loans and consumer loans. The table below shows the number of loans and the dollar amount of loans originated for these three loan types.

| Loan Originations During 2000, 2001 and 2002 | | |
|-----------------------------------------------------|---------------|------------------------------|
| Loan Type | Number | Dollar Amount (\$000) |
| Agricultural Loans | 313 | \$23,394 |
| Commercial Loans | 407 | \$14,620 |
| Consumer Loans | 761 | \$5,294 |
| Total | 1,481 | \$43,308 |

Loan-to-Deposit Ratio

Ruby Valley National Bank's loan-to-deposit ratio indicates a more than reasonable responsiveness to area credit needs. There are two financial institutions within 45 miles of the bank. These banks are similarly situated to Ruby Valley National Bank. They are similar in size and their primary lending focus is agriculture. We averaged each bank's loan-to-deposit ratio for the last thirteen quarters for comparison. During these thirteen quarters, RVNB's loan-to-deposit ratio went from 80 percent on December 31, 1998, to 92 percent on March 31, 2002, with an average loan-to deposit ratio of 91 percent. The thirteen-quarter average loan-to-deposit ratio for the two similarly situated banks are 70 percent and 76 percent.

Lending in Assessment Area

RVNB originates a substantial majority of its loans within the assessment area. Specifically, 75 percent of the number and 64 percent of the dollar volume of all loans originated during the review period were made within the bank's assessment area. We determined the percentage of

loans within the AA from bank-generated reports of loan originations. Our review focused on the bank’s primary loan products, agricultural, commercial and consumer loans. The following table shows the distribution of loans by number and dollar amount.

| Loan Type | Total | | In the AA | | Outside the AA | |
|--------------------|--------|--------------|-----------|--------------|----------------|--------------|
| | Number | Dollar | Number | Dollar | Number | Dollar |
| Consumer Loans | 761 | \$5,293,579 | 610 | \$3,950,722 | 151 | \$1,342,857 |
| Agricultural Loans | 313 | \$23,394,463 | 232 | \$15,317,042 | 81 | \$8,077,421 |
| Commercial Loans | 407 | \$14,620,303 | 272 | \$8,585,815 | 135 | \$6,034,488 |
| Total | 1,481 | \$43,308,345 | 1,114 | \$27,853,579 | 367 | \$15,545,766 |

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank’s distribution of borrowers reflects, given the demographics of the assessment area, good penetration among individuals of different income levels, and businesses and farms of different sizes. The portion of loan originations to low and moderate-income people is more than reasonable based on their corresponding percent of the AA population. Consumer lending is primarily comprised of auto lending and debt consolidation.

| Consumer Lending Activity by Borrower Income Level | | | | | |
|----------------------------------------------------|------------------------|---------|--------------------------------------|---------|----------------------------------------|
| Borrower Income Level | Distribution by Number | | Distribution by Dollar Volume (000s) | | Percent of Families in Income Category |
| | Number | Percent | Number | Percent | |
| Low-Income <19,820 | 284 | 41% | \$1,257 | 23% | 21.0% |
| Moderate-Income 19,821 - <31,680 | 200 | 29% | \$1,662 | 30% | 19.2% |
| Middle-Income 31,681 - <47,520 | 111 | 16% | \$1,347 | 24% | 23.9% |
| Upper-Income >47,521 | 104 | 14% | \$1,294 | 23% | 35.9% |
| Total | 699 | 100 | \$5,560 | 100 | 100.00% |

The bank has achieved an excellent distribution of loans among farms of different sizes. The

bank's participation in various farm loan programs offered by the Farm Service Agency, assists bank management in making small farm loans. Based on recent demographic data obtained from Dunn & Bradstreet, 90 percent of the area farms have revenues less than \$1 million. RVNB originated 95 percent of the loans by dollar volume and 93 percent by number to small farms. The bank originated 67 percent of their agricultural loans to farms with gross annual revenues of \$250 thousand and under. The following table depicts the distribution of the originated agricultural loans based on the farm's revenue size.

| Distribution of Agricultural Loans by Revenue Size | | | | |
|-----------------------------------------------------------|-------------------------------|----------------|--------------------------------------|----------------|
| Revenue Size | Distribution by Number | | Distribution by Dollar Volume | |
| | Number | Percent | Dollars (000) | Percent |
| \$0 - \$100,000 | 204 | 65% | \$7,019 | 30% |
| \$100,001 to \$250,000 | 77 | 25% | \$8,760 | 37% |
| \$250,001 to \$500,000 | 25 | 7% | \$6,538 | 28% |
| \$500,001 to \$1,000,000 | 5 | 2% | \$868 | 4% |
| Greater than \$1,000,000 | 2 | 1% | \$209 | 1% |
| Total | 313 | 100% | \$23,394 | 100% |

Ruby Valley National Bank has demonstrated a strong performance of lending to small businesses. Management participates in the Small Business Administration loan program. Based on demographic data obtained from Dunn & Bradstreet, 89 percent of the assessment area businesses have sales less than \$1 million. RVNB originated 96 percent by number and 89 percent by dollar of commercial loans to small businesses. In addition, the bank originated 69 percent of their small business loans to business with revenues less than \$250 thousand. The table below depicts the distribution of the originated commercial loans.

| Distribution of Commercial Loans by Revenue Size | | | | |
|---------------------------------------------------------|-------------------------------|----------------|--------------------------------------|----------------|
| Revenue Size | Distribution by Number | | Distribution by Dollar Volume | |
| | Number | Percent | Dollars (000) | Percent |
| \$0 - \$100,000 | 245 | 60% | \$5,561 | 38% |
| \$100,001 to \$250,000 | 100 | 25% | \$4,558 | 31% |
| \$250,001 to \$500,000 | 31 | 8% | \$1,755 | 12% |
| \$500,001 to \$1,000,000 | 14 | 3% | \$1,137 | 8% |
| Greater than \$1,000,000 | 17 | 4% | \$1,609 | 11% |
| Total | 407 | 100% | \$14,620 | 100% |

Geographic Distribution of Loans

The homogeneous nature of the bank's assessment area precludes detailed analysis of loan distribution within the different geographies. As stated earlier in the report, the entire assessment area is considered middle income. We focused on the bank's lending performance to small farms, small businesses, and people of different income levels.

Responses to Complaints

The bank has not received any CRA-related complaints since the last examination.

Fair Lending Review

An analysis of 2000, 2001, and 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997.

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the examination.