



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**February 20, 2003**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank of Montana, Inc.  
Charter Number 15150**

**504 Mineral Avenue  
Libby, MT 59923**

**Comptroller of the Currency  
1000 Second Avenue, Suite 3300  
Seattle, WA 98104**

**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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## 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 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 **First National Bank of Montana**, prepared by the **Office of the Comptroller of the Currency**, as of February 20, 2003. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

## INSTITUTION'S CRA RATING

This institution is rated "**Outstanding.**" The major factors that support this rating include:

- The average loan-to-deposit ratio of 88 percent exceeds other peer banks.
- A substantial majority of loans are in the bank's assessment area.
- The distribution of loans reflects good penetration among businesses of different sizes and borrowers of different income levels.
- The geographic distribution of loans reflects adequate dispersion throughout the assessment area.
- There were no public complaints about the bank's CRA performance. The bank provided a high level of community development loans and services.

## DESCRIPTION OF INSTITUTION

The First National Bank of Montana, Inc. (FNB Montana, bank) is a community bank located in Libby, Montana with offices in Anaconda, Bozeman, Butte, Missoula and Troy. The bank is a subsidiary of the one-bank holding company First National Bancorp, Inc., which is also located in Libby. As of September 30, 2002, total bank assets are \$168 million, 74 percent of which are net loans.

FNB Montana's corporate structure has changed since the last CRA examination. The bank merged with First National Bank in Libby in January 1999. Previously, FNB Montana was comprised of the Anaconda, Butte, and Missoula branches, while First National Bank in Libby consisted of the Libby and Troy branches. Since the merger, the bank opened an additional branch in Missoula in February 1999 and a branch in Bozeman in June 2001. The bank also sold two supermarket branches located in Bellgrade and Helena to First Interstate Bank in May 1999.

FNB Montana is a full-service bank offering loans, deposit accounts and traditional banking services. Twenty-four hour automatic teller machines (ATMs) are located at each office with an additional ATM in Libby. The bank's primary focus is meeting the banking needs of the timber industry, consumers, and small businesses located within its assessment area by providing competitive deposit products and a full line of consumer, commercial and real estate loans. There are no financial or legal impediments that affect FNB Montana's ability to meet the credit needs of its assessment area.

Table 1 shows the composition of the bank's loan portfolio as of September 30, 2002:

Table 1

<b>LOAN PORTFOLIO COMPOSITION DECEMBER 31, 2002</b>		
<b>Loan Type</b>	<b>\$ Volume (000)</b>	<b>% of Portfolio</b>
Agriculture	252	1%
Commercial Real Estate	31,784	25%
Commercial	26,888	21%
1-4 Family Residential	27,999	22%
Consumer	38,371	30%
Other	883	1%
<b>Total:</b>	<b>126,177</b>	<b>100%</b>

Source: 12/31/02 Call Report – Average Gross Loans

This office conducted the previous CRA examination dated September 5, 1997. The bank received a "Satisfactory" rating.

## **DESCRIPTION OF ASSESSMENT AREAS (MISSOULA, BOZEMAN, ANACONDA, BUTTE, LIBBY, TROY)**

Since the previous CRA examination, FNB Montana has changed its assessment area. As noted previously, FNB Montana merged with First National Bank in Libby in January 1999. This change means that, for CRA purposes, the bank has three assessment areas. These assessment areas include Lincoln, Gallatin, Silver Bow, Deer Lodge, and Missoula Counties. Silver Bow and Deer Lodge Counties are contiguous. In addition, Lincoln, Silver Bow, and Deer Lodge Counties share similar economic and demographic characteristics. As such, this CRA examination will combine these counties into one assessment area for evaluation purposes. Gallatin County will be considered a separate assessment area, as will Missoula County, which is located in a metropolitan statistical area (MSA).

Competition from other financial institutions in the bank's assessment areas is strong. According to the Montana Banker's Association, there are 37 commercial banks with 69 branches, 4 savings banks with 4 branches, and 11 credit unions with 11 branches in the three assessment areas. Branches of large national and regional banks are among these financial institutions. The bank also competes with several non bank financial institutions located in the assessment areas.

In conjunction with this CRA examination, examiners conducted a community contact interview. In addition, two other contact interviews completed by the Federal Deposit Insurance Corporation in the bank's assessment areas were reviewed. Community contacts are interviewed to learn about credit opportunities within the community, and how well financial institutions address the credit and service needs of the community. The contacts for this examination included representatives from a statewide economic development agency, a local development corporation, and a local housing authority. These representatives indicated the need for affordable housing and small business financing.

### **Description of Assessment Area 1 - Missoula MSA**

The Missoula MSA includes all of Missoula County, which is located on the western border of the state. Two branches in the city of Missoula serve this assessment area. Based on 2000 census data, the Missoula MSA contains 19 census tracts and has a population of 95,802 - a 22 percent increase in population from the 1990 U.S. Census. Of the 19 census tracts, 6 are classified moderate-income, 9 are middle-income, 3 are upper-income and none are low-income. The remaining census tract does not contain any families or households and is thus excluded from the analysis. It is located on the University of Montana campus with a population comprised mainly of students. The assessment area meets the requirements of the regulation, and does not arbitrarily exclude low- and moderate-income geographies.

The updated 2001 U.S. Department of Housing and Urban Development (HUD) MSA median family income for the assessment area is \$45,200. Based on 1990 U.S. Census data, 18 percent of households live or have income below poverty level, and there are 20,281 families residing in the assessment area. Of these families, 23 percent live in moderate-income tracts, 53 percent live in middle-income tracts, and 24 percent live in upper-income tracts. Based on 2001 data from the Center

for Applied Economic Research (CAER) at Montana State University-Billings, the median housing value for the Missoula MSA is \$139,337. The high median housing value makes it difficult for low- and moderate-income families to buy homes. Data from the 1990 Census indicates that 55 percent of all housing units in the MSA are owner-occupied. The level of owner-occupied housing is lower in the Missoula MSA due to the large student population at the University of Montana.

According to community contacts, economic conditions in the assessment area are fairly strong. The unemployment rate, as calculated by the Montana Department of Labor and Industries, fell from 4.2 percent in December 2001 to 3.8 percent in December 2002. Unemployment in the assessment area is lower than the 2002 statewide and national unemployment rates. The Missoula economy, once dominated by the timber and mining industries, has evolved into a retail and services economy now dominated by tourism. Similar to Gallatin County, jobs in retail trade and services typically pay less. Based on 2001 Montana Department of Labor and Industries data, the average annual employment in retail trade and services represents 57 percent of all employment in the area, but only 45 percent of total annual wages paid.

## **Description of Assessment Area 2 – Bozeman BNA**

Assessment area 2 includes all of Gallatin County, which is located in the southwest region of Montana. One branch, located in Bozeman, operates in this assessment area. According to the 2000 U.S. Census, the county population is 67,831. There are 12 census tracts within the assessment area, including 2 moderate-income tracts, 8 middle-income tracts, 2 upper-income tracts, and no low-income tracts. Of the 12,469 families living in the assessment area, 89 percent reside in the middle- and upper-income census tracts, and 11 percent live in the moderate-income tracts. Seventeen percent of households live or have income below poverty level. The assessment area meets the requirements of the regulation, and does not arbitrarily exclude low- and moderate-income geographies.

The 2001 updated HUD non-MSA statewide median family income is \$39,600. According to the CAER, the 2001 median housing value in the assessment area is \$137,500. The community contacts noted that home prices continue to escalate in the area, making it very difficult for low- and moderate-income families to buy affordable homes. This statement is supported by statistics from the Gallatin Association of Realtors Multiple Listing Service, which states that the median home sale price in Bozeman in the first quarter of 2003 was \$170,000. This is a 24 percent increase in two years. Due to the large student population at Montana State University in Bozeman, the level of owner-occupied housing is low at 52 percent (based on 1990 Census data).

One community contact described steady economic conditions in Gallatin County. The diversity of the local economy contributes to its economic strength and the university lends some stability. According to the Montana Department of Labor and Industries, the unemployment rate in Gallatin County increased from 2.8 percent in December 2001 to 3.6 percent in December 2002, but remains below the statewide unemployment rate of 4.2 percent and the national unemployment rate of 6.0 percent. The largest employment sectors in the assessment area are services and retail trade, which accounted for 43 percent of 2001 annual wages paid. Government, including the university, constitutes the next largest

sector with 23 percent of 2001 annual wages paid. Businesses in the services and retail trade sectors provide job opportunities; however, the positions generally have lower wages. For example, 2001 average annual employment in services and retail trade totaled 53 percent of all employment in the assessment area, but only paid 43 percent of total wages.

### **Description of Assessment Area 3 – Anaconda, Butte, Libby and Troy BNAs**

Assessment Area 3 consists of Lincoln, Silver Bow and Deer Lodge Counties. Lincoln County is located in the northwest corner of the state. Silver Bow and Deer Lodge Counties are located next to each other in southwestern Montana. The bank's main office is located in Libby, in Lincoln County. Four other branches serve the cities of Anaconda, Troy, and Butte. The assessment area includes 2 moderate-income census tracts, 12 middle-income tracts, 5 upper-income tracts, and no low-income tracts. The bank's assessment area consists of whole geographies and does not arbitrarily exclude any low- or moderate-income tracts.

Based on 2000 census data, the assessment area has a population of 62,280, including 16,668 families. Of these families, 87 percent reside in the middle- and upper-income census tracts, and 13 percent reside in the moderate-income tracts. The 2001 HUD updated non-MSA statewide median family income is \$39,600. Based on CAER data, the 2001 median housing value is \$94,000 in Lincoln County, \$72,250 in Silver Bow County, and \$54,000 in Deer Lodge County. Based on 1990 census figures, 61 percent of housing units in Lincoln County are owner-occupied, compared to 63 percent in both Silver Bow and Deer Lodge Counties. Fifteen percent of households in the assessment area live or have income below poverty level.

Economic conditions in the assessment area remain depressed. The timber and mining industries were the economic mainstays in these counties. However, mine closures and reductions in timber production have had a significant negative impact on the local economies. Based on data from the Montana Department of Labor and Industries, the average number of jobs statewide in the mining and timber industries fell 21 percent and 13 percent, respectively, between 1990 and 2000.

According to the Lincoln County Economic Development Council, efforts are being made to attract new businesses to the area and diversify into light industry and manufacturing, tourism, and technology. Silver Bow County is combating the slowdown with an aggressive economic development council and the Anaconda Chamber of Commerce in Deer Lodge County is heavily promoting tourism. Although unemployment levels have fallen in all three counties since year-end 2001, the unemployment rate in each county remains significantly above the December 2002 statewide unemployment rate of 4.2 percent. Lincoln County had the highest unemployment rate at 11.8 percent as of year-end 2002. Silver Bow County's year-end 2002 unemployment rate was 4.9 percent, and Deer Lodge County's unemployment rate for the same period was 7.1 percent.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance.

The LTD ratio demonstrates a willingness to lend. FNB Montana's level of lending is excellent given the bank's size, the credit needs of the assessment area (AA), and the competitive banking market within the AAs. Examiners analyzed the bank's LTD ratio over the last 13 quarters, from December 1999 through December 2002. During these 13 quarters, the LTD ratio ranged from a low of 81.79 percent in September 2001 to a high of 97.30 percent in December 1999, with an average of 88.24 percent.

Examiners also reviewed seven banks of similar size and financial condition that are located within same AAs. The average LTD ratio was 76.11 percent. FNB Montana's LTD ratio is significantly above the median range, and therefore exceeds the standard for satisfactory performance.

### Lending in Assessment Area

The bank's level of lending within its assessment areas exceeds the standard for satisfactory performance.

Analysis for lending in the AA included all bank loans originated during 2001 and 2002. Examiners prepared this analysis based on the bank's data, which we tested for accuracy. Table 2 demonstrates the distribution of loans originated inside and outside FNB Montana's assessment area.

Table 2

NUMBER AND PERCENTAGE OF LOANS ORIGINATIONS WITHIN THE ASSESSMENT AREA YEARS 2001 AND 2002								
	Inside Assessment Area				Outside Assessment Area			
YEAR	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)
2001	1,846	82%	59,749	86%	415	18%	9,545	14%
2002	1,603	82%	64,329	87%	345	18%	9,208	13%
<b>Total</b>	<b>3,449</b>	<b>82%</b>	<b>124,078</b>	<b>87%</b>	<b>760</b>	<b>18%</b>	<b>18,753</b>	<b>13%</b>

Source: FNB Montana Compiled Data

As demonstrated above, the bank originated a substantial majority of its loans within the assessment area. Moreover, the bank disbursed a substantial majority of lending dollars within the assessment area. Consequently, the bank's lending to consumers within the assessment area exceeds the standard for satisfactory performance.



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

The bank's level of lending to borrowers of different income levels and businesses of different sizes meets the standard for satisfactory performance.

The random sample included 20 commercial real estate, 20 consumer residential real estate, and 20 consumer loans for each assessment area reviewed. These loans were originated between January 2001 and December 2002, and were within the bank's assessment area. Examiners selected these loan products for review because they are the bank's primary product lines. Please refer to Table 1 for a breakdown of the bank loan portfolio by product category.

Examiners compared the bank's lending to businesses in the assessment area to the demographics of small businesses of the assessment area. Small businesses are those with gross revenues of \$1 million or less. Updated business demographics reflect that between 92 and 95 percent of the businesses in the assessment areas are defined by Dun & Bradstreet as small businesses. Tables 3, 4, and 5 reflect the distribution of commercial real estate lending by business revenue size.

Table 3

<b>DISTRIBUTION OF COMMERCIAL REAL ESTATE LOANS BY ANNUAL REVENUE MISSOULA MSA YEARS 2001-2002</b>					
<b>Revenue Size</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Small Businesses in AA*</b>
Less than \$1 Million	20	100%	7,304	100%	92%
Greater than \$1 Million	0	0%	0	0%	8%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>7,304</b>	<b>100%</b>	<b>100%</b>

\* Source: 2002 Dun & Bradstreet

Table 4

<b>DISTRIBUTION OF COMMERCIAL REAL ESTATE LOANS BY ANNUAL REVENUE BOZEMAN BNA YEARS 2001-2002</b>					
<b>Revenue Size</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Small Businesses in AA*</b>
Less than \$1 Million	20	100%	6,870	100%	93%
Greater than \$1 Million	0	0%	0	0%	7%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>6,870</b>	<b>100%</b>	<b>100%</b>

\* Source: 2002 Dun & Bradstreet

Table 5

<b>DISTRIBUTION OF COMMERCIAL REAL ESTATE LOANS BY ANNUAL REVENUE ANACONDA, BUTTE, LIBBY, &amp; TROY BNAs YEARS 2001-2002</b>					
<b>Revenue Size</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Small Businesses in AA*</b>
Less than \$1 Million	20	100%	2,097	100%	95%
Greater than \$1 Million	0	0%	0	0%	5%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>2,097</b>	<b>100%</b>	<b>100%</b>

\* Source: 2002 Dun & Bradstreet

All of the commercial real estate loans were made to businesses with revenues under \$1 million. The data reflects a distribution of loans to small businesses that is well above the demographics of the assessment area. This demonstrates the bank's commitment to make loans available to small businesses, an identified community credit need. Consequently, the bank's lending to small businesses exceeds the standard for satisfactory performance.

Table 6 below reflects the distribution of residential-related loans by borrower income level and compares it to the distribution of families in the assessment area by income level. Because Missoula is located in a MSA, examiners reviewed Home Mortgage Disclosure Act (HMDA) reportable originations and refinanced loans during the period January 2001 through December 2002, which included 93 loans totaling \$10.2 million.

Table 6

<b>RESIDENTIAL LOANS BY INCOME LEVEL MISSOULA MSA YEARS 2001 – 2002</b>					
<b>Borrower Income</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Families in AA*</b>
Low Income	3	3%	145	1%	19%
Moderate Income	12	13%	853	9%	16%
Middle Income	31	33%	2,969	29%	20%
Upper Income	47	51%	6,185	61%	45%
<b>Total Loan Sample:</b>	<b>93</b>	<b>100%</b>	<b>10,152</b>	<b>100%</b>	<b>100%</b>

\*Sources: 1990 U.S. Census  
2002 HUD Updated MFI

Table 6 reflects the bank's lending to low- and moderate-income (LMI) borrowers is below the area demographics both in number of loans and dollar volume. However, this is reasonable due to the high

poverty rate, lack of low-income tracts in the AA, and competition for affordable housing as discussed in the **Description of Assessment Area 1 - Missoula MSA** section of this Performance Evaluation (PE). Because of these factors, this real estate environment makes it difficult for these families to qualify for home loans. Consequently, the bank's lending to borrowers of different income levels reasonably compares to the demographics of the assessment area and meets the standard for satisfactory performance.

Tables 7 and 8 reflect the distribution of residential-related loans by borrower income level compared to the distribution of families in the assessment area by income level. A random sample of 20 loans were reviewed for each assessment area.

Table 7

<b>RESIDENTIAL LOANS BY INCOME LEVEL BOZEMAN BNA YEARS 2001 – 2002</b>					
<b>Borrower Income</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Families in AA*</b>
Low Income	1	3%	40	3%	16%
Moderate Income	2	13%	80	7%	17%
Middle Income	7	33%	406	35%	24%
Upper Income	9	51%	649	55%	43%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>1,175</b>	<b>100%</b>	<b>100%</b>

\*Sources: 1990 U.S. Census  
2002 HUD Updated MFI

The bank's lending to LMI borrowers in the Bozeman Block Number Area (BNA) is below the area demographics as a result of the bank's focus on small business lending. Consumer real estate lending activity is a result of accommodating business customers, which traditionally have a higher net worth. The bank is in the process of relocating the Bozeman branch to an area that consumers can easily access with additional services such as a drive-up facility. In addition, as documented in the **Description of Assessment Area 2 – Bozeman BNA** section of this PE, housing prices continue to rise rapidly. This makes it difficult for LMI individuals to afford housing. Consequently, the bank's lending to borrowers of different income levels reasonably compares to the demographics of the assessment area and meets the standard for satisfactory performance.

Table 8

<b>RESIDENTIAL LOANS BY INCOME LEVEL ANACONDA, BUTTE, LIBBY, &amp; TROY BNAs YEARS 2001 – 2002</b>					
<b>Borrower Income</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Families in AA*</b>
Low Income	2	10%	50	5%	20%
Moderate Income	5	25%	172	18%	18%
Middle Income	3	15%	143	15%	23%
Upper Income	10	50%	612	62%	39%

<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>977</b>	<b>100%</b>	<b>100%</b>
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\*Sources: 1990 U.S. Census  
2002 HUD Updated MFI

Table 8 shows that the bank's lending to low-income borrowers is below the area demographics both in number and dollar volume of loans. For moderate-income borrowers, the bank's lending is significantly above the demographics. This is commendable since the AA has experienced high unemployment and poverty in the past 10 years with the Stimson Mill layoffs and subsequent closure. The mill closure resulted in a loss of 300 jobs. This assessment area is comprised of small towns that have not experienced much business growth or expansion, which has limited the number of loan opportunities for commercial real estate ventures. Overall the bank's lending to LMI borrowers is consistent with the area demographics and meets the standard for satisfactory performance.

Tables 9, 10, and 11 reflect the distribution of consumer loans by borrower income level compared to the distribution of households in the assessment area by income level. For each assessment area, a random sample of 20 consumer loans was selected for review.

Table 9

<b>CONSUMER LOANS BY INCOME LEVEL MISSOULA MSA YEARS 2001 – 2002</b>					
<b>Borrower Income</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Households in AA*</b>
Low Income	4	20%	22	9%	23%
Moderate Income	6	30%	59	25%	16%
Middle Income	6	30%	104	43%	17%
Upper Income	4	20%	55	23%	44%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>240</b>	<b>100%</b>	<b>100%</b>

\*Sources: 1990 U.S. Census  
2002 HUD Updated MFI

Table 9 demonstrates that the bank's lending to low-income borrowers is below the area demographics both in number and dollar volume of loans. For moderate-income borrowers, the bank's lending is significantly above the percentage of household demographics. Overall the bank's lending to low- and moderate-income borrowers is consistent with the area demographics and meets the standard for satisfactory performance.

Table 10

<b>CONSUMER LOANS BY INCOME LEVEL BOZEMAN BNA YEARS 2001 – 2002</b>					
<b>Borrower Income</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Households in AA*</b>
Low Income	4	20%	20	9%	22%
Moderate Income	5	25%	28	13%	16%
Middle Income	5	25%	77	35%	19%
Upper Income	6	30%	95	43%	43%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>220</b>	<b>100%</b>	<b>100%</b>

\*Sources: 1990 U.S. Census  
2002 HUD Updated MFI

Table 10 indicates that the Bozeman branch's lending to low-income individuals based on number of loans is similar to the demographics of the AA; however, the bank's lending based on dollar volume of loans is significantly below the percentage of households. This appears reasonable since consumer loans to low-income individuals tend to be for smaller dollar amounts. For moderate-income borrowers, the bank's lending significantly exceeds the area demographics, both in number and dollar volume. This level of lending reflects the bank is tailoring its lending to LMI individuals and therefore exceeds the standard for satisfactory performance.

Table 11

<b>CONSUMER LOANS BY INCOME LEVEL ANACONDA, BUTTE, LIBBY, &amp; TROY BNAs YEARS 2001 – 2002</b>					
<b>Borrower Income</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Households in AA*</b>
Low Income	2	10%	20	10%	27%
Moderate Income	4	20%	62	29%	17%
Middle Income	8	40%	53	25%	18%
Upper Income	6	30%	75	36%	38%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>210</b>	<b>100%</b>	<b>100%</b>

\*Sources: 1990 U.S. Census  
2002 HUD Updated MFI

Table 11 reflects that the bank's lending to low-income borrowers is below the area demographics both

in number and dollar volume of loans. For moderate-income borrowers, the bank's lending is significantly above the percentage of households. Overall the bank's lending to low- and moderate-income borrowers is consistent with the area demographics and meets the standard for satisfactory performance.

### Geographic Distribution of Loans

The geographic distribution of lending within the assessment areas meets the standard for satisfactory performance.

Geographic distribution of lending is reviewed for the pattern of lending activity between low- and moderate-income tracts within the assessment areas. Overall, the bank's lending distribution is reflective of the population demographics in the various income areas. The distribution of FNB Montana's lending does not indicate that the bank excludes LMI areas.

Tables 12, 13, and 14 detail the bank's commercial real estate lending activity within the AA. Examiners used the same sample of commercial real estate loans from the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** section of this report.

Table 12

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL REAL ESTATE LOANS MISSOULA MSA YEARS 2001 - 2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Small Businesses in AA*
Low Income	0	0	0	0%	0%
Moderate Income	6	30%	3,506	48%	39%
Middle Income	7	35%	715	10%	46%
Upper Income	6	30%	2,884	39%	15%
N/A	1	5%	199	3%	<1%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>7,304</b>	<b>100.%</b>	<b>100%</b>

\*Source: 2002 Dun & Bradstreet

As documented in Table 12, the bank's lending activity in the Missoula MSA indicates the bank's lending is consistent with the demographics of the AA, both in number of loans and dollar volume, and meets the standard for satisfactory performance.

Table 13

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL REAL ESTATE LOANS BOZEMAN BNA YEARS 2001 - 2002					
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Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Small Businesses in AA*
Low Income	0	0%	0	0	0%
Moderate Income	6	30%	2,704	39%	12%
Middle Income	11	55%	2,668	39%	66%
Upper Income	3	15%	1,498	22%	22%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>6,870</b>	<b>100%</b>	<b>100%</b>

\*Source: 2002 Dun & Bradstreet

Table 13 shows that commercial real estate lending in the Bozeman MSA is significantly above the demographics, both in number of loans and dollar volume in the moderate-income tract. This reflects excellent responsiveness to businesses located in moderate-income tracts and exceeds the standard for satisfactory performance.

Table 14

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL REAL ESTATE LOANS ANACONDA, BUTTE, LIBBY, & TROY BNAs YEARS 2001 - 2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Small Businesses in AA*
Low Income	0	0%	0	0%	0%
Moderate Income	3	15%	137	7%	22%
Middle Income	15	80%	1,805	86%	64%
Upper Income	2	5%	155	7%	14%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>2,097</b>	<b>100%</b>	<b>100%</b>

\*Source: 2002 Dun & Bradstreet

The bank's commercial lending in the rural areas of Anaconda, Butte, Libby, and Troy is below the area demographics noted in Table 14 above. Business growth in this AA has been stagnant due to the Stimson Mill layoffs and subsequent closure.

Tables 15, 16, and 17 summarize the geographic distribution of the bank's consumer real estate lending activity. Examiners reviewed the same sample of residential real estate loans from the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** section of this PE.

Table 15

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOANS MISSOULA MSA YEARS 2001 - 2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Owner Occupied Housing in AA*
Low Income	0	0%	0	0%	0%
Moderate Income	13	14%	1,168	12%	20%

Middle Income	57	61%	6,134	60%	55%
Upper Income	23	25%	2,850	28%	25%
<b>Total Loan Sample:</b>	<b>93</b>	<b>100%</b>	<b>10,152</b>	<b>100%</b>	<b>100%</b>

\*Source: 1990 U.S. Census

Table 15 reflects that the bank's lending in moderate-income tracts, both in number of loans and dollar volume, is below the demographics of the Missoula MSA. Per discussion with management, Missoula's rising home prices are attributed to newcomers to the state. People moving to Montana tend to be older and have higher incomes than those moving out. As discussed in **Description of Assessment Area 1 - Missoula MSA** section of this PE, the high poverty rate and large percentage of college students in Missoula makes it difficult for the bank to lend to new homeowners in this area.

Table 16

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOAN BOZEMAN BNA YEARS 2001 - 2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Owner Occupied Housing in AA*
Low Income	0	0%	0	0%	0%
Moderate Income	1	5%	50	4%	6%
Middle Income	11	55%	699	59%	64%
Upper Income	8	40%	426	36%	30%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>1,175</b>	<b>100%</b>	<b>100%</b>

\*Source: 1990 U.S. Census

Table 16 demonstrates that the bank's lending in moderate-income tracts is consistent with the demographics of the AA both in number of loans and dollar volume. Therefore, the bank's geographic distribution of residential lending in the Bozeman AA meets the standard for satisfactory performance.

Table 17

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOAN ANACONDA, BUTTE, LIBBY & TROY BNAs YEARS 2001 - 2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Owner Occupied Housing in AA*
Low Income	0	0%	0	0%	0%
Moderate Income	5	25%	198	20%	12%
Middle Income	13	65%	673	69%	65%
Upper Income	2	10%	106	11%	23%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>977</b>	<b>100%</b>	<b>100%</b>

\*Source: 1990 U.S. Census



The bank's consumer real estate originations in moderate-income tracts, as indicated in Table 17, significantly exceed the percentage of moderate-income tracts in the AA. Based on the sample, 100% of loans originated by the Troy branch were made to individuals located in moderate-income tracts. This indicates excellent responsiveness to the people in moderate-income tracts in this AA, and therefore exceeds the standard for satisfactory performance.

Tables 18, 19, and 20 detail the bank's consumer lending geographic distribution. Examiners reviewed the same sample of consumer loans used for the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** section of this PE.

Table 18

CONSUMER LOANS GEOGRAPHIC DISTRIBUTION MISSOULA MSA YEARS 2001 - 2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Households in AA*
Low Income	0	0%	0	0	0%
Moderate Income	5	25%	67	28%	30%
Middle Income	12	60%	149	62%	49%
Upper Income	3	15%	24	10%	21%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>240</b>	<b>100%</b>	<b>100%</b>

\*Source: 1990 U.S. Census

As Table 18 reflects above, the bank's consumer lending in moderate-income tracts is slightly below the Missoula MSA's percentage of moderate-income tracts both in number of loans and dollar volume. However, slight differences between the demographics and loan sample do not indicate disparate treatment. Consequently, the Missoula AA consumer lending meets the standard of satisfactory performance.

Table 19

CONSUMER LOANS GEOGRAPHIC DISTRIBUTION BOZEMAN BNA YEARS 2001 - 2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Households in AA*
Low Income	0	0%	0	0%	0%
Moderate Income	1	5%	4	2%	13%
Middle Income	16	80%	159	72%	64%
Upper Income	3	15%	57	36%	23%

<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>220</b>	<b>100%</b>	<b>100%</b>
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\*Source: 1990 U.S. Census

The bank's lending in moderate-income tracts, both in number and dollar volume of loans, is below the demographics of the Bozeman AA based on figures noted in Table 19. This appears reasonable since the moderate-income tracts in this AA are inhabited by a significant number of college students who traditionally do not seek consumer related lending products. Consequently, the bank meets the standard for satisfactory performance.

Table 20

<b>CONSUMER LOANS GEOGRAPHIC DISTRIBUTION ANACONDA, BUTTE, LIBBY &amp; TROY BNAs YEARS 2001 - 2002</b>					
<b>Income of Tract</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>\$ (000's) of Loans</b>	<b>% of \$(000)</b>	<b>% of Households in AA*</b>
Low Income	0	0%	0	0%	0%
Moderate Income	5	25%	72	34%	15%
Middle Income	12	60%	117	56%	63%
Upper Income	3	15%	21	10%	22%
<b>Total Loan Sample:</b>	<b>20</b>	<b>100%</b>	<b>210</b>	<b>100%</b>	<b>100%</b>

\*Source: 1990 U.S. Census

The bank's consumer lending in moderate-income tracts of this AA is significantly above the demographics. This indicates the bank is responsive in meeting the needs of its area's population. The bank's performance is commendable since only 11 percent of tracts are designated as moderate-income areas. Therefore, based on the information provided in Table 20, the bank exceeds the standard for satisfactory performance.

### **Responses to Complaints**

FNB Montana has not received any written complaints associated with its performance under the Community Reinvestment Act.

### **Fair Lending Review**

Examiners analyzed 1997-2001 Small Business lending data, public comments, and consumer complaint information, according to the OCC's risk-based fair lending approach. Based on its analysis of 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 previous comprehensive fair lending examination was performed in conjunction with our compliance examination dated May 30, 2000.

## **COMMUNITY DEVELOPMENT SERVICES, LOANS, AND INVESTMENTS**

### **Bank Services**

FNB Montana provides banking services that are readily accessible to geographies and individuals of different income levels in its assessment areas. Of the eight branches located in the AAs, two branches/ATMs are located in moderate-income tracts (25%). The bank offers alternate delivery systems such as eBank, Telebanking, bank-by-mail, night drop, and electronic transfer options.

Several products are offered that are advantageous to low- and moderate-income individuals and nonprofit organizations: Free Checking, Free ATM cards, Free ATM services at bank-owned ATMs, and Free Electronic Funds transaction posting.

### **Community Development Services**

FNB Montana provides a high-level of community development (CD) services for an institution of its size. These services are very responsive to the identified needs of the assessment areas, particularly in the areas of affordable housing, small business development, and neighborhood revitalization. During the evaluation period, members of various levels of management contributed more than 850 hours of financial technical assistance to 22 CD organizations. The bank also provides a meeting facility in its Libby branch to several of those groups. Below is a breakdown by assessment area and some examples of these services:

#### Statewide

- The bank offers Home\$start through the Federal Home Loan Bank (FHLB). FHLB's Home\$start program is designed to assist low- and moderate-income households in obtaining financing for a home. During this evaluation period, the bank processed one request and three more have completed the education course and savings section of the program. Participants in this program receive an additional one-half percent on their savings account and one-fourth percent reduction of the loan origination fee.
- Bank management provides technical assistance regarding credit counseling and applications for Small Business Administration (SBA) programs.
- Bank employees provide technical assistance to LMI schools by donating "How to do your Banking" learning program materials (computer CD-Rom and books). Employees also participate in various educational classes with students regarding banking and financing for the future.
- Bank personnel have an active partnership with Habitat for Humanity. The bank has contributed hundreds of volunteer hours.

### Anaconda, Butte, Libby and Troy

- A senior management employee serves on the board of a nonprofit health care facility.
- A branch president served on the Health Communities Task Force. The task force was formed several months ago to identify a secure timber source for area mills and health care issues facing the area communities.
- On an ad-hoc basis, branch personnel provide notary services to a senior citizens center to accommodate those seniors who are not physically able to come into the branch.

### **Community Development Loans**

FNB Montana originated a high level of community development loans during the evaluation period. The bank made a total of nine community development loans totaling \$1.535 million representing 11.69 percent of Tier 1 capital. All loans were responsive to the identified needs in the community.

### Promote Economic Development

- Five SBA / USDA loans totaling \$1.02 million were made to small businesses located in the Missoula AA MSA, which enabled the businesses to add 25 new jobs in this assessment area.
- The Bozeman branch originated one SBA loan totaling \$159 thousand to a small business. This loan prevented the business from downsizing, thus helped to retain four jobs in low-to-moderate income area.
- The Libby Branch made two loans under the new city economic development loan guarantee program in the amount of \$242 thousand. Both of these loans have resulted in additional employment opportunities for the community.

### Community Services Targeted to LMI Individuals

- The Libby branch lent \$114 thousand to a local nonprofit senior citizens center to construct a new facility. The 10-year loan was made in conjunction with the City of Libby economic development guarantee program. The bank receives a net rate of 1.0 percent on this participation.

### **Investments**

The bank donated \$4,200 to various organizations targeted to low- and moderate-income individuals in the AA. In addition, the bank donated \$35,900 to economic development entities that help small business provide jobs and revitalize the economy.

## APPENDIX A

### DEFINITIONS AND COMMON ABBREVIATIONS

**BLOCK NUMBERING AREAS (BNAs):** Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area communities have not established census tracts. BNAs do not cross county lines.

**CENSUS TRACTS:** Small subdivisions of metropolitan and other relatively densely populated counties. These 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.

**CONSUMER LOANS:** Loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes motor vehicle loans, other secured consumer loans, and other unsecured consumer loans categories.

**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 non-relatives living with the family.

**HOUSEHOLD:** Includes all persons occupying a housing unit.

**LOW-INCOME:** Geography median family income below 50% of MSA or statewide non-MSA median family income (MFI).

**HOME MORTGAGE DISCLOSURE ACT (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, income of the applicant, amount of the loan, and the disposition of the applications (e.g., approved, denied, withdrawn).

**MEDIAN FAMILY INCOME:** The median family income (MFI) is determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the MFI is determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**METROPOLITAN STATISTICAL AREA (MSA):** A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other

portions of the larger area.

**MODERATE-INCOME:** Geography median family income of at least 50%, but less than 80% of MSA or statewide non-MSA MFI.

**MIDDLE-INCOME:** Geography median family income of at least 80%, but less than 120% of MSA or statewide non-MSA MFI.

**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.

**TIER 1 CAPITAL:** The total common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**UPPER-INCOME:** Geography median family income that equals or exceeds 120% of statewide non-MSA MFI.