

## **PUBLIC DISCLOSURE**

**October 19, 1999**

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

**The Continental National Bank of Harlowton  
Charter Number 13417**

**32 North Central  
Harlowton, Montana 59036**

**Comptroller of the Currency  
Billings Field Office  
490 North 31<sup>st</sup> Street Suite 220  
Billings, Montana 59107**

**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 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 Continental National Bank of Harlowton prepared by The Office of the Comptroller of the Currency, as of October 19, 1999. 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 Satisfactory.

We assign this rating because:

- The bank's loan-to-deposit ratio is comparable to similarly situated banks;
- A substantial majority of loans are made in the bank's assessment area;
- The distribution of loans to small farm and small business borrowers, and individuals of different income levels reflects the demographics of the community; and
- The geographic distribution of loans reflects good dispersion throughout the assessment area.

**DESCRIPTION OF INSTITUTION:**

The Continental National Bank of Harlowton (CNB) is a full-service community bank located in central Montana. In addition to the Harlowton office, CNB has a branch in Ryegate, Montana. The branch opened on November 23, 1998. Each office has an attached automated teller machine. On June 30, 1999, the bank had total assets of \$31 million. A group of local investors owns the bank.

CNB is primarily an agricultural lender. The following table shows the breakdown of the loan portfolio as of June 30, 1999. Net loans represented 59 percent of total assets.

<i>Loan Product</i>	<i>Dollars (in thousands)</i>	<i>Percent of total loans</i>
<i>Agricultural</i>	<i>10,722</i>	<i>58%</i>
<i>Commercial</i>	<i>4,067</i>	<i>22%</i>
<i>General Purpose Consumer</i>	<i>2,033</i>	<i>11%</i>
<i>Residential Real Estate</i>	<i>1,665</i>	<i>9%</i>
<i>Total</i>	<i>18,487</i>	<i>100%</i>

The bank received a "Satisfactory" rating in the previous CRA Performance Evaluation dated March 27, 1997. There are no financial or legal impediments that limit the bank's ability to help meet the credit needs of its assessment area.

**DESCRIPTION OF ASSESSMENT AREA:**

The bank has defined its assessment area as Wheatland, Golden Valley, and Meagher counties. The assessment area consists of six Block Numbering Areas (BNA's) with a total population of 4,977. The income characteristics and population of the assessment area are shown in the following table.

<i>Income Designation</i>	<i># of BNA's</i>	<i>Population</i>
<i>Low income</i>	<i>0</i>	<i>0</i>
<i>Moderate income</i>	<i>4 (67%)</i>	<i>2,946 (59%)</i>
<i>Middle income</i>	<i>2 (33%)</i>	<i>2,031 (41%)</i>
<i>Upper income</i>	<i>0</i>	<i>0</i>
<i>Total</i>	<i>6</i>	<i>4,977</i>

The town of Harlowton is designated moderate-income. The income designation is based on the 1990 median family income for residents in each BNA. This is a statewide average computed by the U.S. Department of Housing and Urban Development for Montana. It excludes the metropolitan areas of Billings and Great Falls. The 1998 updated median family income for Montana was \$36,300.

The following table outlines median income levels of families living in the assessment area.

<i>Family Income Levels in the Assessment Area (1998)</i>		
<i>Classification and income range</i>	<i>Number</i>	<i>Percent</i>
<i>Low income (Less than \$18,150)</i>	329	26%
<i>Moderate income (Over \$18,151 but less than \$29,040)</i>	323	26%
<i>Middle income (Over \$29,041 but less than \$43,560)</i>	280	22%
<i>Upper income (Over \$43,561)</i>	335	26%
<i>Total</i>	<i>1,267</i>	<i>100%</i>

The assessment area of the bank complies with the legal requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income geographies.

The current economic condition of the assessment area is stable. In addition, the population has remained steady over the last five years. Primary industries include small farms and ranches, and services (hospital, schools, and U.S. Forest Service). Competition is moderate with only one other bank and a credit union located in the assessment area. Large nationwide mortgage companies also compete in the residential real estate loan market and for long-term agricultural real estate financing.

We learned about the credit needs of the community by interviewing the mayor of Harlowton, the bank president, and reviewing previous examiner interviews with community leaders. The contacts stated that the community needs credit for small business, agricultural, and general consumer purposes. The community contacts also stated that financial institutions are meeting these identified credit needs

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

We sampled 40 loans originated since the last CRA examination to evaluate the bank's performance. The sample included 10 agricultural loans, 10 commercial loans, and 20 residential real estate loans. These represent the primary credit products offered by CNB. The bank's information systems did not readily provide information on the dollar volume of loan originations in the evaluation period. Therefore, we base our conclusions on the information obtained from the loan sample.

#### **Loan-to-Deposit Ratio**

CNB has maintained a satisfactory loan-to-deposit ratio, which compares to similarly situated banks. CNB had an average 68 percent quarterly loan-to-deposit ratio since the prior examination. The ratio was 69 percent as of June 30, 1999. For comparison purposes we selected six community banks in central Montana that are similar in asset size and offer a full range of community banking products. The average ratio of the peer banks for the same ten quarter period was 74 percent. On June 30, 1999, the sampled banks had ratios ranging from 62 percent to 86 percent. The average was 72 percent.

## Lending in the Assessment Area

The bank makes a substantial majority of its loans in the assessment area. Specifically, 80 percent of the loans in our sample were made in the assessment area. Please refer to the sampling methodology at the beginning of the Conclusions with Respect to Performance Criteria section for details on the number and types of loans sampled.

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

CNB's lending patterns reflect a satisfactory distribution among individuals of various income levels and businesses of different sizes. The bank's lending record is reasonable in relation to the demographics of the assessment area. To enhance lending, the bank participates in government guaranteed loan programs through Farm Services Agency and Small Business Administration. However, activity during the last three years is low. The 1990 census reported that 95 percent of the 317 reporting businesses in the assessment area had annual revenues less than \$1MM. The following table shows the breakdown of CNB's loans to small businesses and small farms.

<i>Commercial and Agricultural Loans</i>		
	<i># of Loans</i>	<i>% of sample</i>
<i>Agricultural borrowers with revenues less than \$500,000</i>	7	88%
<i>Commercial borrowers with revenues less than \$1,000,000</i>	8	89%

CNB's record of residential real estate lending is satisfactory. However, the bank's lending distribution is slightly lower than demographic statistics for low- and moderate-income families. There are two main reasons for this outcome. First, the bank does not currently participate in government-guaranteed loan programs targeting low- and moderate-income people. Also, the bank only offers mortgage loans with 15- and 20-year amortization periods. This increases the monthly payment, relative to the standard 30-year loans offered by mortgage companies. To assist low- and moderate-income people, bank management actively refers denied applicants to a mortgage company that offers special government-guaranteed mortgage products. The following table compares the distribution of 15 sampled residential real estate loans to family income demographics in the assessment area.

<i>Residential Real Estate Loans by Borrower Income Level</i>		
<i>Family Income Category:</i>	<i>% of Sample Loans</i>	<i>% of Families in the Assessment Area</i>
<i>Low income:</i>	7%	26%
<i>Moderate income:</i>	20%	26%
<i>Middle income:</i>	33%	22%
<i>Upper income:</i>	40%	26%
<i>Total:</i>	100%	100%

## Geographic Distribution of Loans

CNB exceeds the standards for satisfactory performance in this area. Our sample of 15 residential real estate loans made in the assessment area was heavily concentrated in the moderate-income BNA's. This dispersion exceeded the demographic proportion of owner occupied housing within the assessment area. The following table outlines the distribution of our sample loans.

<i>Geographic Distribution of Residential Real Estate Loans</i>	<i>% of Residential RE Loans</i>	<i>% of Owner Occupied Houses</i>
<i>Moderate-Income BNA</i>	<i>93%</i>	<i>62%</i>
<i>Middle-Income BNA</i>	<i>7%</i>	<i>38%</i>
<i>Total</i>	<i>100%</i>	<i>100%</i>

## Record of Complaints and Compliance with Anti-discrimination Laws

There were no complaints about the bank's CRA performance from the public since the last CRA examination.

We reviewed the bank's compliance with the Equal Credit Opportunity Act and the Fair Housing Act. We did not find any violations of the substantive provisions of anti-discrimination laws and regulations.