

PUBLIC DISCLOSURE

September 9, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Eureka
Charter Number: 15397**

**222 Dewey Avenue
Eureka, Montana 59917**

**Comptroller of the Currency
50 Fremont Street, Suite 3900
San Francisco, California 94105**

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 Community Reinvestment Act (CRA) performance of **First National Bank of Eureka** prepared by the **Comptroller of the Currency**, as of September 9, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING.- This institution is rated "**Satisfactory**".

- A high loan-to-deposit ratio;
- An high number and volume of loans in the assessment area; and
- A good record of lending to small business, and especially micro-businesses.

The following table indicates the performance level of First National Bank of Eureka with respect to each of the five performance criteria .

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST NATIONAL BANK OF EUREKA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans	Not rated. Not a meaningful analysis for this bank's assessment area demographics		
Response to Complaints	No complaints received since the last examination.		

DESCRIPTION OF INSTITUTION

First National Bank of Eureka (FNB Eureka), is an independently owned community bank located in Eureka, Montana. As of June 30, 1996, the bank had \$25 million in total assets. The bank has no branches and one automated teller machine (ATM) in the community. The bank is a subsidiary of Glacier Bancorp, Inc. a three bank holding company located in Kalispell, Montana. Consolidated assets of the holding company and subsidiaries totaled \$388 million as of December 31, 1995. The bank does not have any financial or legal impediments that would prevent it from meeting the credit needs of the community/assessment area. FNB Eureka received an "Outstanding Record of Meeting Community Credit Needs" during the last CRA examination dated November 11, 1992.

The bank's business focus is small business lending, residential real estate lending, and general purpose consumer lending. These loans (by number), make up 22 percent, six percent, and 72 percent, respectively, of originations for the eight months ending August 31, 1996.

DESCRIPTION OF FNB EUREKA'S ASSESSMENT AREA

The bank's assessment area consists of one block numbering area (BNA) located in the city of Eureka. The population of the assessment area is 4,166 and it covers the western portion of Lincoln County which is located in northwestern Montana. The 1990 U.S. Census data shows nonmetropolitan statewide median family income for Montana is \$27,349.

According to bank management, the economic base of the community has shown some deterioration due to its dependence on timber and mining. Some improvement is noted in the tourism and service sectors of the local economy. Timber, mining, and tourism are the major industries. Based on an October 1995 Montana Community Profile, published by the Montana Department of Commerce, the major employers in the area are Ownes and Hurst Lumber Co., Plum Creek Timber, Lincoln County School District 13, U.S. Forest Service and Lincoln Electric Coop. The Montana Community Profile also states that average housing costs in the assessment area are between \$65,000 and \$85,000 compared to the state-wide nonmetropolitan median housing cost of \$46,300. The housing costs are between 40 percent and 83 percent higher than the state-wide median.

The community contact used for this examination consisted of the Eureka Board of Commerce/Economic Development Council, located in Eureka, Montana. There are no unmet credit needs; however, the contact stated that affordable housing was the primary need in Eureka. The contact stated that the need for affordable housing was not due to the lack of credit availability or programs for low-income borrowers but due to a very small stock of existing affordable housing.

Historically, competition in Eureka has not been particularly strong; however, a community bank from Whitefish has moved a loan finance company to Eureka and there is a small credit union in town which translates into a more competitive environment.

The bank's assessment area complies with the Community Reinvestment Act and does not arbitrarily exclude any low- and moderate-income geographies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

FNB Eureka has maintained a loan-to-deposit ratio that is substantially higher than similarly situated banks for the last eight quarters beginning September 30, 1994, and ending June 30, 1996. This bank's ratio was 92 percent. The loan-to-deposit ratios of seven similarly situated banks range from 68 percent to 89 percent. The similarly situated banks are independent community banks located in the northwestern counties of Lincoln and Flathead with assets of less than \$100 million and operate one or no branches.

Lending in the Assessment Area

Overall, a substantial majority of FNB Eureka's loans were originated within its assessment area. We took a sample of consumer loans, real estate loans and commercial loans made since August 1995. Based on the addresses of the borrowers in our sample, we identified that 92 percent (by number) of FNB Eureka's loans were in its assessment area.

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

Based on our sample of loans reviewed, FNB Eureka does a good job of lending to small businesses and a good job of extending credit to borrowers of different income levels.

The tables below illustrate the demographics of the assessment area and the bank's lending performance in each income category and to businesses of different sizes. Our sample consisted of 20 real estate loans, 21 consumer loans and 20 commercial loans which represent 8 percent of the number of loans originated since January 1, 1995.

Table 1

Income Population Category	Percent of the Population	Percent of loan sample Consumer	Percent of loan sample Real Estate
Low: < 50% of HUD median income	24%	10%	0%
Moderate: ≥ 50% but < 80% of HUD median income	24%	38%	15%
Middle: ≥ 80% but <120% of HUD median income	24%	29%	20%
Upper: ≥ 120% of HUD median income	28%	23%	65%
Total	100%	100%	100%

FNB Eureka's low penetration of loans to low income borrowers is centered in real estate lending and is due to the lack of available affordable housing in the area. However, the bank does a good job of extending credit to moderate income borrowers. A large percentage of the population in the assessment area have incomes below the poverty level. This lack of qualified borrowers limits the bank's ability to extend credit to low- and moderate-income borrowers. Also, based on previously discussed local income characteristics and information from local economic organizations, there would be a limited number of applicants that could qualify for existing real estate in the assessment area. Local housing prices are much higher than the state-wide average housing price. Based on the results of our review, consumer lending is reasonable.

Table 2

Business Revenues (000)	Percent of Loan Sample
0-\$100	80%
\$100-\$250	10%
\$250-\$500	0%
\$500-\$1,000	5%
>\$1 Million	5%
Total	100%

Based on the results of our sample, FNB Eureka makes loans available to small businesses, as 90 percent of the loans reviewed were made to micro-businesses with revenues less than or equal to \$250,000. As of examination date, FNB Eureka had 25 SBA loans in the amount of \$1.8 million, which were 16 percent (number), and 34 percent (amount) of the bank's commercial loan portfolio. The bank is recognized as a preferred lender by the SBA

Geographic Distribution of Loans

We did not find this analysis meaningful. The bank's assessment area consists of one sparsely populated middle income BNA. There are no neighborhoods in the assessment area that could be considered low- and moderate-income.

Record of Complaints and Compliance with Antidiscrimination Laws

There were no complaints about the bank's CRA performance from the public and we found no violations of the substantive provisions of antidiscrimination laws and regulations.

Also, FNB Eureka and its sister banks have been scheduled by HUD to enter into the Best Practices Agreement which signifies FNB Eureka's commitment to affordable housing and fair lending practices. FNB Eureka along with its sister banks are the only bank's in Montana invited to sign the agreement with HUD. This agreement is reserved for only the top few banks that have demonstrated a commitment to increase home ownership opportunities and to fair lending practices.

Community Development

Services

FNB Eureka along with affiliated Glacier Bank,FSB, and First National bank of Whitefish has developed the Glacier Affordable Housing Foundation. FNB Eureka dedicates several resources to the foundation including management coordination, advertisements, and credit expertise. This program provides down payment and closing costs for affordable housing in FNB Eureka's assessment area. Funding for the program is supplied through grants from government agencies. In conjunction with the foundation, FNB Eureka sponsors seminars for first time home buyers on an ongoing basis. To date no loans have been funded through this program.

FNB Eureka along with its affiliated banks received the Community Bank Partnership Award from the Federal Home Loan Bank in Seattle for its outstanding partnership in revitalizing the areas affordable housing initiative. This award was a direct result of the development of the Glacier Affordable Housing Foundation.

Donald Chery, President of FNB Eureka serves on the Tobacco Valley Economic Development Council. Determining ways to improve the area and addressing the need for affordable housing is the council's mission. President Chery provides credit related expertise to the council.