



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 27, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Ekalaka
Charter Number 11382
Corner of Chicago and Main
Ekalaka, Montana 59324**

**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 Satisfactory.

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

- The average loan-to-deposit ratio reflects a satisfactory responsiveness to community credit needs and is reasonable when compared to a similarly situated bank.
- A substantial majority of agricultural, commercial and consumer loans were originated within the 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:

The First National Bank of Ekalaka (FNBE) is a community bank operating in rural, southeastern Montana. FNBE is the only bank in the county. Competition from other providers of financial services is low in consumer and home loans but moderate, for small farm loans. The competition is from banks in neighboring towns. FNBE provides a variety of credit and deposit services to support agricultural producers, small businesses and consumers located within the assessment area (AA).

As of September 30, 2002, the bank had total assets of \$22 million. FNBE's percentage of net loans to total assets was 60 percent. The following table displays the breakdown of the bank's loan portfolio.

Table 1 AVERAGE LOAN PORTFOLIO COMPOSITION September 30, 2002	\$ (000)	Percent
Agricultural Loans	7,869	58
Commercial Loans	2,504	18
Real Estate Loans	2,219	16
Consumer Loans	1,047	8
Total	13,639	100

Source: Uniform Bank Performance Report, September 30, 2002

The prior Community Reinvestment Act Performance Evaluation was dated March 30, 1998, with a "Satisfactory" rating.

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

DESCRIPTION OF CARTER COUNTY:

Ekalaka is the county seat of Carter County located in southeastern Montana. The county has 1,360 residents with approximately 439 living in Ekalaka. Residents in the southern one-third of the county generally travel to Wyoming or South Dakota towns for banking needs due to the lack of paved roads going north to Ekalaka.

FNBE's assessment area (AA) includes two block-numbering areas (BNAs) in Carter County. The BNA's are designated moderate-income. The assessment area follows natural geographic boundaries and is approximately 40 miles wide and 80 miles long. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The 2000 Census demographics list the median housing cost for the AA at \$27,650. It also shows that 50 percent of the 811 housing units are owner occupied, and 28 percent are vacant.

For 2002, the US Department of Housing and Urban Development (HUD) estimates the non-metropolitan median family income (MFI) for Montana was \$39,600. Table 2 provides information on how each income level is defined based on the non-MSA MFI. Also included in the table is the percent of families within each income level according to the 1990 Census data for FNBE's Assessment Area.

Table 2				
1990 CENSUS DATA				
Income Level	Percent of MFI	Income Range	Families	
			Number	Percent
Low-Income	Less than 50%	< \$19,800	125	30.56%
Moderate-Income	At least 50% and less than 80%	\$19,801 - \$31,680	96	23.47%
Middle-Income	At least 80% and less than 120%	\$31,681 - \$47,520	62	15.16%
Upper-Income	120% and over	>\$47,521	126	30.81%

Source: U.S. Census Bureau, 1990 Census Data

The assessment area's economy is largely dependent on agriculture, mainly cattle and sheep ranching and wheat production. Local commercial businesses as well are dependent upon business from ranchers and farmers. The AA's largest industries, based on total number of employees for 2002, include: agriculture (37 percent), services (19 percent), and retail trade (6 percent). The major employers are Carter County, the school district, Southeast Electric, and The First National Bank of Ekalaka. Carter County Credit Union is the only other financial institution located in the assessment area.

We interviewed a local business manager to determine what credit opportunities exist for local financial institutions. He indicated the primary community credit needs were general banking products for consumers and agricultural producers. This person also indicated that housing needs are being met.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation of the bank's lending performance is based upon the review of loans originated in 2001 and 2002. The tables included in this section use cumulative data. We randomly selected twenty loans from each of the following three loan categories: agricultural, commercial, and consumer loans secured by autos.

We focused on the bank's primary loan types: commercial, agriculture and consumer. Bank management actively participates in loan programs offered by Farm Service Agency (FSA). The loan officers also help borrowers complete the paper work for small business loans. The borrower receives the loan directly from the Small Business Association.

The number and dollar amount of loan originations made in 2001 and 2002 are presented by loan type in the table below.

Loan Type	Dollar Amount	Number
Agriculture	\$8,153,440	212
Commercial	\$1,518,126	36
Consumer	\$1,284,771	154
Total	\$10,956,337	402
Loan Type	% by Dollars of Loans Originated/Purchased during evaluation period	% by Number of Loans Originated/Purchased during evaluation period
Agriculture	74%	53%
Commercial	14%	9%
Consumer	12%	38%
Total	100%	100%

Lending in Assessment Area

FNBE originates a substantial majority of its loans within the assessment area. Specifically, 95 percent of the number and 98 percent of the dollar volume of all loans originated during the review period were made within the bank's assessment area. We calculated the percentage of loans within the AA from our loan sample. The following table shows the distribution of loans by number and dollar amount.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Agriculture	20	100	0	0	20	1,594,301	100	0	0	1,594,301
Commercial	20	100	0	0	20	715,091	100	0	0	715,091
Consumer – Auto	17	85	3	15	20	216,187	84	40,213	16	256,400
Totals	57		3		60	2,525,579		40,213		2,565,792

Source: Loan sample

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, excellent penetration among individuals of different income levels and businesses and farms of different sizes. The portion of loans originated to low- and moderate-income people is good based on their corresponding percent of the AA population.

Borrowers of Different Incomes

Borrower Income Level	Distribution by Number		Distribution by Dollar Volume (000s)		Percent of Families in AA by Income Category
	Number	Percent	Dollar	Percent	
Low-Income <19,800	6	35	27,001	15%	30.56%
Moderate-Income 19,801 - <31,680	4	24	15,681	8%	23.47%
Middle-Income 31,681 - <47,520	3	17	23,083	12%	15.16%
Upper-Income >47,521	4	24	120,307	65%	30.81%
Total	17*	100	186,072		100.00%

*Three borrowers income information was not available.

Source: Loan sample and 1990 Census data

Businesses of Different Sizes

The First National Bank of Ekalaka has demonstrated good performance in lending to small businesses. The bank participates in the Small Business Administration loan program. Based on demographic data obtained from 1990 Census data, 61 percent of the assessment area businesses have sales less than \$1 million.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	61	3
% of Bank Loans in AA by #	100	
% of Bank Loans in AA by \$	100	

Source: Loan sample; Dunn and Bradstreet data. * 36% of AA businesses did not report revenue data

FNBE originated 100 percent by number and 100 percent by dollar of commercial loans to small businesses. In addition, the bank originated 95 percent of their small business loans to businesses with revenues less than \$250 thousand. The table below depicts the distribution of the originated commercial loans.

Table 6B - Borrower Distribution of Loans to Businesses by Loan Size in FNBE's AA				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	13	65	275,056	39
\$100,001 - \$250,000	6	30	425,035	59
\$250,001 - \$500,000	1	5	15,000	2
\$500,001 - \$1,000,000	0	0	0	0
Over \$1,000,000	0	0	0	0

The bank has achieved a strong distribution of loans among farms of different sizes. The bank's participation in various programs offered by the Farm Service Agency assists bank management in making small farm loans. Based on demographic data obtained from 1990 Census reports, 95 percent of the area farms have revenues less than \$1 million.

Table 6C - Borrower Distribution of Loans to Farms in FNBE's AA		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Farms*	95	5
% of Bank Loans in AA by #	100	
% of Bank Loans in AA by \$	100	

Source: Loan sample; Dunn and Bradstreet data.

FNBE originated 100 percent of the loans by dollar volume and 100 percent by number to small farms. The bank originated 85 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.

Table 6D - Borrower Distribution of Loans to Farms by Revenue Size in FNBE's AA				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	10	50	427,246	27
\$100,001 - \$250,000	7	35	381,976	24
\$250,001 - \$500,000	2	10	535,079	34
Over \$500,000	1	5	250,000	15

Source: Loan sample and 1990 Census data

Loan-to-Deposit Ratio

FNBE's loan-to-deposit ratio indicates a reasonable responsiveness to area credit needs. We averaged FNBE's loan-to-deposit ratio for the last thirteen quarters ending September 30, 2002, for analysis purposes. During these thirteen quarters, FNBE's loan-to-deposit ratio went from 60 percent on December 31, 2000, to 85 percent on September 30, 1999, with an average of 72 percent. For comparative purposes, we analyzed the loan-to-deposit ratios of four other community banks operating in southeast Montana. Only one of these banks operates in FNBE's assessment area. However, all of the banks have a similar agricultural lending focus. The thirteen quarter, average loan-to-deposit ratio for these four banks was 71.2%.

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 moderate 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 complaints during this evaluation period.

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 analysis of the information, the OCC decided that a comprehensive fair lending examination would not be conducted in connection with the CRA evaluation this year. The last comprehensive fair lending exam was performed in 1998.

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