



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 30, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**United States National Bank of Red Lodge
Charter Number 9841
602 North Broadway
Red Lodge, MT 59068**

**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 strong responsiveness to community credit needs and is higher than similarly situated banks.
- 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:

United States National Bank of Red Lodge (USNB) is a small community bank operating in rural, south central Montana. The bank's office is located in Red Lodge. The bank is wholly owned by Silver Run Bancorp; a one-bank holding company. The bank owns five ATMs located in Red Lodge and Roberts. USNB's business focus is to provide a variety credit and deposit services to support the needs of small businesses, agricultural producers, and consumers located within the assessment area (AA).

As of June 30, 2002, the bank had total assets of \$45.9 million. The percentage of net loans to total assets was 72 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	\$24,729	32.1%
Commercial and Industrial Loans	\$5,355	29.9%
Agricultural Loans	\$2,026	26.5%
Consumer Loans	\$1,308	10.3%
Other Loans	\$130	1.2%
Total Loans	\$33,548	100%

The prior Community Reinvestment Act Performance Evaluation was dated January 21, 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 community/assessment area.

DESCRIPTION OF CARBON COUNTY:

USNB's assessment area (AA) consists of a part of Carbon County, Montana. The assessment area is not part of a metropolitan statistical area (MSA). The AA is comprised of three block-numbering areas (BNAs). Two are designated as middle income and the other BNA is moderate income. The BNAs are: 9655 – Roberts Division which is the moderate-income tract, 9656 – Red Lodge – Bearcreek Division, and 9657 – Red Lodge City. Red Lodge is the county seat for Carbon County. The 1999 Rural Development Corporation demographics list the median housing cost for Carbon County at \$115,376. 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 9,552.

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 Carbon County.

**Carbon County Income Distribution
1990 Census Data**

Income Level	Percent of MFI	Income Range	Families	
			Number	Percent
Low-Income	Less than 50%	<\$19,820	311	27.2%
Moderate-Income	51% - 80%	\$19,821 - <\$31,680	291	25.5%
Middle-Income	81% - 120%	\$31,681 - <\$47,520	189	16.6%
Upper-Income	121% and over	>\$47,521	351	30.7%

The assessment area's economy is largely dependent on tourism and agriculture. Cow/calf operations are the major agricultural product. Carbon County's largest industries, based on total number of employees for 1999, are services (44 percent), retail trade (38 percent) and construction (8 percent). The major employers are Red Lodge Mountain Resort and Beartooth Hospital and Health Care. Bank competitors include two institutions, which are branches of larger financial institutions.

Community contacts interviewed during this examination included a real estate broker and the CEO of the local hospital. They indicated the primary community credit needs were multi-family housing and general consumer loan products. The contacts also stated the economic conditions in the local area have been negatively impacted by the drought.

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 randomly selected twenty loans for each of the following categories, purchase residential real estate, commercial and agricultural for a total of 60 loans sampled.

We focused on the bank’s primary loan types: real estate, commercial and agriculture. Bank management actively participates in loan programs offered by the Small Business Association, Farm Service Agency, and the Business and Industry Guaranteed Loan Program (USDA). In addition to these guarantee programs, the bank participates with Montana Board of Housing, Rural Development, Habitat for Humanity, and the Human Resource Development Council Grant in offering first time home buyer, low-interest home loans, loans to refurbish substandard homes and down payment assistance. Bank management has participated in first time homebuyer classes offered in conjunction with the Rural Development Corporation. These classes have been offered at least annually.

The bank sells a large majority of their 1-4 family residential loans to the secondary market, but retains the servicing. For the years 2000, 2001 and 2002 the bank sold 77 loans for a total of \$10,678,425. This is in addition to real estate loans originated and kept in the portfolio. The dollar amount of loans on the bank’s books as of the June 30, 2002, is listed below. One-to-four family residential real estate loans make up thirty-three percent of the all real estate loans on the bank’s books.

USNB Loan Originations

Loan Type	Number	Dollar Amount (\$000)
Real Estate Loans	183	\$12,345
Commercial Loans	406	\$13,165
Agriculture Loans	124	\$4,832
Total	713	\$30,342

Loan-to-Deposit Ratio

USNB’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 USNB in size, however their primary lending focus is agriculture. We averaged each bank’s loan-to-deposit ratio for the last fourteen quarters for comparison. During these fourteen quarters, USNB’s loan-to-deposit ratio went from 73 percent on June 30, 1999, to 92 percent on March 31, 2002, with an average loan-to deposit ratio of 84 percent. The fourteen-quarter average loan-to-deposit ratio for the two similarly situated banks were 77 percent and 68 percent.

Lending in Assessment Area

USNB originates a substantial majority of its loans within the assessment area. Specifically, 90 percent of the number and 93 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 the loans sampled. Our review focused on the bank’s primary loan products, real estate, commercial and agricultural 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
Real Estate Loans	20	\$2,000,309	20	\$2,000,309	0	0
Commercial Loans	20	\$2,698,137	19	\$2,675,577	1	\$22,560
Agricultural Loans	20	\$1,024,494	17	\$782,067	3	\$242,427
Total	60	\$5,722,940	56	\$5,457,953	4	\$264,987

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 loans originated to low and moderate-income people is reasonable based on their corresponding percent of the AA population. The moderate-income tract is also serviced by another institution, which mitigates the lower number of real estate loans made by the bank. The 1999 average income for Carbon County is \$17,330 and the average sale price of a home is \$115,376. Because of this large disparity, many people cannot qualify to purchase a home in the AA. Red Lodge is a resort town and home prices are relatively high.

Real Estate Purchase Lending Activity by Borrower Income Level					
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 <19,820	2	10%	\$57,750	2.89%	27.23%
Moderate-Income 19,821 - <31,680	7	35%	\$471,369	23.56%	25.48%
Middle-Income 31,681 - <47,520	3	15%	\$371,229	18.56%	16.55%
Upper-Income >47,521	8	40%	\$1,099,961	54.99%	30.74%
Total	20	100.00%	\$2,000,309	100.00%	100.00%

United States National Bank of Red Lodge has demonstrated good performance of lending to small businesses. Management participates in the Small Business Administration loan program. Based on demographic data obtained from Dun and Bradstreet, 91 percent of the assessment area businesses have sales less than \$1 million. USNB originated 95 percent by number and 98 percent by dollar of commercial loans to small businesses. In addition, the bank originated 80 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	Percent
\$0 - \$100,000	11	55%	\$483,902	18%
\$100,001 to \$250,000	5	25%	\$176,514	7%
\$250,001 to \$500,000	2	10%	\$1,842,856	67%
\$500,001 to \$1,000,000	1	5%	\$150,060	6%
Greater than \$1,000,000	1	5%	\$44,805	2%
Total	20	100%	\$2,698,137	100%

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 Dun and Bradstreet reports, 97 percent of the area farms have revenues less than \$1 million. USNB originated 100 percent of the loans by dollar volume and 100 percent by number to small farms. The bank originated 95 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	Percent
\$0 - \$100,000	14	70%	\$644,993	63%
\$100,001 to \$250,000	5	25%	\$349,432	34%
\$250,001 to \$500,000	1	5%	\$30,069	3%
\$500,001 to \$1,000,000	0	-	0	-
Greater than \$1,000,000	0	-	0	-
Total	20	100%	\$1,024,494	100%

Geographic Distribution of Loans

The geographic distribution of loans is reasonable. Eight percent of the loans originated by USNB are located in the moderate BNA. The population of this area represents thirty-three percent of the AA. The moderate income BNA is the most distant from the bank's office and includes the town of Roberts. Competition also exists in that BNA from a bank in the town of Joliet, which is equal distance to Roberts. Another mitigating factor in the distribution of loans

is the large disparity between the average income of \$17,000 and the average price for a home of \$115,000. This difference makes it very difficult for low and moderate - income individuals to qualify for a home loan.

Geographic Distribution of Loans in the Assessment Area

Table 3 - Geographic Distribution of Residential Real Estate Loans in Carbon County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing	% of Number	% of AA Owner Occupied Housing
Home Purchase	0%	0	10%	51.63%	90%	39.23%	0%	0

Source: Loan sample and 1990 U.S. Census data.

Table 3A - Geographic Distribution of Loans to Businesses in Carbon County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses	% of Number	% of AA Businesses
Commercial Loans	0	0	0	60.67%	100	88.92%	0	0

Source: Loan sample and 1990 U.S. Census data.

Table 3A - Geographic Distribution of Loans to Farms in Carbon County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Number	% of AA Farms	% of Number	% of AA Farms	% of Number	% of AA Farms	% of Number	% of AA Farms
Agriculture Loans	0	0	16%	39.33%	84%	11.08%	0	0

Source: Loan sample and 1990 U.S. Census data.

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 1998.

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