



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

September 18, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Ekalaka
Charter Number 11382**

**Main and Chicago Street
Ekalaka, MT 59324**

Comptroller of the Currency

**Utah, Montana, Wyoming, and Idaho
2795 East Cottonwood Parkway, Suite 390
Salt Lake City, UT 84121**

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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The First National Bank of Ekalaka (FNB) satisfactorily meets the credit needs within its community. This assessment is based upon the following lending conclusions:

- The bank has a satisfactory record of lending to farms of different sizes and consumers with different income levels.
- FNB's performance in lending in the assessment area is satisfactory. The bank originated a majority of its loans in the assessment area (AA). For agricultural loans and consumer loans sampled, the bank originated 65 percent by number and 81 percent by dollar amount within its AA.
- The bank's average loan-to-deposit ratio since the last examination is reasonable.

DESCRIPTION OF INSTITUTION

The First National Bank of Ekalaka is a community bank operating in rural, southeastern Montana. FNB provides a variety of credit and deposit services to support agricultural producers, small businesses and consumers located within the AA. FNB and a local credit union are the only financial institutions in the county. Financial institutions in neighboring counties provide moderate competition for loans to small farms. As of June 30, 2007, the bank had total assets of \$26 million, with loans representing 50 percent of total assets. Please refer to the *CRA Public File* for further information.

FNB's capital levels are satisfactory in relation to the bank's overall financial condition and risk profile. There are no legal impediments to hinder the bank's ability to meet community's credit needs. Bank activities are consistent with the bank's size, its financial capacity, local economic conditions, and credit needs of the community. We rated the bank's performance under the Community Reinvestment Act as "Satisfactory" at our last CRA examination on January 27, 2003.

DESCRIPTION OF ASSESSMENT AREA

FNB has designated all of Carter County, Montana, as its assessment area (AA). Carter County is located in southeastern Montana and is not part of any Metropolitan Statistical Area. The AA consists of one census tract, which is middle-income. Please refer to the *CRA Public File* for further information. The U. S. Census Bureau estimates the county's 2006 population at 1,321 people, and that the population declined 2.9 percent from April 1, 2000 to July 1, 2006. Additionally, statistics compiled by the U. S. Census Bureau show that the percentage of population over 65 years of age within the AA is 41 percent higher than that of the state of

Montana.

We contacted one city official in the assessment area to discuss economic conditions and credit needs. The official identified AA credit needs as loans for agricultural operations and loans for typical small town businesses and consumers. The official indicated that local financial institutions were meeting the assessment area's credit needs, and that officers of FNB were active in community development efforts.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Scope of Examination

The evaluation period for this CRA examination focuses on loan originations from January 1, 2005, through June 30, 2007. To determine the bank's primary lending products, we reviewed both the dollar amount of loans and the number of loans originated or purchased during the evaluation period. FNB's primary loan product based on dollar volume and number of loans originated is agricultural lending. Consumer lending is also a significant loan product in terms of number of loans originated. Accordingly, we randomly selected from throughout the evaluation period 25 loans to agricultural borrowers and 25 consumer loans as representative samples on which to base our conclusions.

Loan-to-Deposit Ratio

There are no other financial institutions subject to CRA within the AA. When compared to the loan-to-deposit ratio of three similarly sized banks located in counties somewhat near the AA, FNB ranked fourth out of four banks. FNB's loan-to-deposit ratio of 51 percent fell well below the three institutions' loan-to-deposit ratios, which ranged from 57 percent to 69 percent

The lower ratio of this bank is mitigated by several factors. Management attributes the bank's lower LTD ratio to low loan demand, a stable deposit base, and competition from financial institutions outside the AA for agricultural loans. The AA's declining population and the gradual consolidation of AA farms produced fewer agricultural borrowers, which has resulted in lower loan demand. Additionally, the percentage of the population over 65 years of age is significantly greater in Carter County than in the rest of the state, which contributes to a stable deposit base and lack of loan demand in Carter County. Refer to the Description of Assessment Area section of this report. Finally, management reports that larger financial institutions from outside the AA are increasing competition for agricultural borrowers.

Lending in Assessment Area

FNB's performance in lending in the assessment area is satisfactory. The bank originated a majority of its loans in the AA. For agricultural loans and consumer loans sampled, the bank originated 65 percent by number and 81 percent by dollar amount within its AA.

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

The bank has a satisfactory record of lending to farms of different sizes and consumers with different income levels.

FNB's distribution of loans to agricultural borrowers of different sizes by number exceeds the demographic comparators of the AA. Based on our sample, 100 percent of loans to farms in the assessment area went to agricultural borrowers with annual revenues of \$1 million or less. This compares favorably with assessment area demographic information showing 96 percent of bank loans to farms in the assessment area went to agricultural borrowers with annual revenues of \$1 million or less. We obtained demographic information from Dunn & Bradstreet.

FNB's distribution of consumer loans compared to the percentage of assessment area low- and moderate-income households meets standards for satisfactory performance. FNB's consumer loans to low- and moderate-income households approximates demographic comparators. Based on our sample, the bank originates 30 percent of its consumer loans to low-income households and 17 percent to moderate-income households. Thirty percent of assessment area households are low-income, and 19 percent are moderate-income. We obtained the demographic information from the 2000 United States Census.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans was not applicable as the AA has only one census tract, which is a middle-income geography.

Responses to Complaints

The bank has received no complaints regarding its CRA performance.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.