



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 25, 2002 

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Fairfield
Charter Number 11307**

**321 Central Avenue
Fairfield, MT 59436**

**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 similarly situated banks.
- A majority of agricultural, commercial and residential real estate loans were originated within the assessment area.
- An analysis of loan originations revealed an excellent distribution among small farms and small businesses and a reasonable distribution to borrowers of different income levels.

DESCRIPTION OF INSTITUTION:

The First National Bank of Fairfield (FNB) is a community bank operating in rural, north central Montana. FNB is a wholly owned subsidiary of Teton Bancshares, Inc., a registered bank holding company. The holding company also owns Citizens State Bank of Choteau, a small community bank 17 miles northwest of Fairfield. FNB's main office is located in Fairfield and the branch is located in Vaughn. Vaughn is situated in the Great Falls Metropolitan Statistical Area (MSA). The bank owns two ATMs, one in Fairfield and one in Vaughn. The ATM in Vaughn was destroyed by fire and will be replaced by year-end. FNB's business focus is to provide a variety of credit and deposit services to support the needs of agricultural producers, small businesses and consumers located within the assessment area (AA).

As of June 30, 2002, the bank had total assets of \$66.5 million and Teton Bancshares, Inc had total assets of \$120 million. FNB's percentage of net loans to total assets was 47 percent. The following table displays the breakdown of the bank's loan portfolio.

Loan Portfolio Mix
June 30, 2002

Loan Type	Total Dollar Amount (000s)	Percentage of Loan Portfolio
Real Estate Loans	\$10,607	32.5%
Commercial and Industrial Loans	\$8,883	27.2%
Consumer Loans	\$7,374	22.6%
Agricultural Loans	\$5,423	16.6%
Other Loans	\$327	1.0%
Total Loans	\$32,614	100%

The prior Community Reinvestment Act Performance Evaluation was dated May 16, 1997, 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 THE FIRST NATIONAL BANK OF FAIRFIELD’S ASSESSMENT AREA:

FNB’s assessment area (AA) includes two block-numbering areas (BNAs) and two adjoining census tracts in the Great Falls, Montana, Metropolitan Statistical Area (MSA). The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The two census tracts in the MSA are semi rural areas of small housing tracts interspersed with farmland. The entire AA is considered middle income according to the 1990 census data. The BNAs are: 9715 – Fairfield Division, 9716.98 – Choteau City, and the census tracts are: 101 – Sun Prairie CDP, Great Falls and 107 – Sun River Valley Division. The 2001 Census demographics list the median housing cost for the AA at \$51,892. It also shows that 68 percent of the 4,449 housing units are owner occupied, and 14 percent are vacant. The AA population is 11,065.

For 2002, the US Department of Housing and Urban Development (HUD) estimates the non-metropolitan, median family income (MFI) for Montana at \$39,600 and the metropolitan statistical area median family income at \$41,900. The following table 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 FNB’s Assessment Area.

**FNB’s Assessment Area Income Distribution
1990 Census Data**

Income Level	Percent of MFI	Income Range	Families	
			Number	Percent
Low-Income	Less than 50%	<\$19, 820	608	19.8%
Moderate-Income	51% - 80%	\$19,821 - <\$31,680	500	16.4%
Middle-Income	81% - 120%	\$31,681 - <\$47,520	758	24.5%
Upper-Income	121% and over	>\$47,521	1,192	38.9%

The assessment area’s economy is largely dependent on small grain agriculture, primarily, custom barley grown for Anheuser Busch. The AA’s largest industries, based on total number of employees for 2001 are: services (37 percent), retail trade (26 percent) and construction (10 percent). The major employers are Three Rivers Telephone Cooperative, Sun River Electric Cooperative, and the irrigation district. Financial institutions in the assessment area include Citizens State Bank of Choteau (affiliated bank), Russell Country Federal Credit Union and numerous financial institutions in Great Falls.

We interviewed two individuals from local small businesses to determine what credit opportunities exist for local financial institutions. They indicated the primary community credit needs were general banking products for consumers and agricultural producers. Both contacts indicated that housing needs are being met. However, the availability of vacant lots within the

city limits is extremely limited.

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 from these two years. We randomly selected twenty loans for each of the following categories; commercial and agricultural and 67 residential real estate loans for a total of 107 loans sampled.

We focused on the bank's primary loan types: commercial, agriculture and residential real estate (purchase, home improvement and refinances). Bank management actively participates in loan programs offered by the Small Business Association (SBA), Farm Service Agency (FSA), Montana Board of Housing, Rural Development and the Federal Home Loan Bank. Included in the guarantee programs are first time homebuyer loans and a home start savings program. Bank management also participates in educating individuals in homebuyer education classes at least quarterly. These classes are taught in conjunction with the Rural Development Corporation and the North Central RCD.

The number and dollar amount of loan originations since 2001 are presented by loan type in the table below. As of the review date, the bank has booked 7 FSA guarantee loans for \$882,000 and 14 FSA subordinations for \$805,000. They have 14 SBA loans for \$765,064. One-to-four family residential real estate loans make up seventy-three percent of all the real estate loans on the bank's books.

Loan Originations

Loan Type	Number	Dollar Amount
Agriculture Loans	234	\$11,948,502
Commercial Loans	212	\$8,769,052
Consumer Loans	848	\$7,590,177
Real Estate Loans	100	\$10,701,918
Total	1,394	\$39,009,649

Lending in Assessment Area

FNB originates a majority of its loans within the assessment area. Specifically, 80 percent of the number and 78 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 DISTRIBUTION IN THE ASSESSMENT AREA

Loan Type	Total		In the AA		Outside the AA	
	Number	Dollar	Number	Dollar	Number	Dollar

Residential Real Estate Loans	67	\$3,400,000	48	\$2,051,000	19	\$1,349,000
Commercial Loans	20	\$1,755,565	19	\$1,745,565	1	\$10,000
Agricultural Loans	20	\$1,353,732	19	\$1,306,157	1	\$47,575
Total	107	\$6,509,297	86	\$5,102,722	21	\$1,406,575

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. Other institutions also service the assessment area, which mitigates the lower number of real estate loans made by the bank.

Borrowers of Different Incomes

The three tables illustrate shows the bank's residential real estate lending activity by borrower income level.

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	15%	\$26	4.8%	19.9%
Moderate-Income 19,821 - <31,680	1	8%	\$18	3.3%	16.3%
Middle-Income 31,681 - <47,520	3	23%	\$79	14.7%	24.8%
Upper-Income >47,521	7	54%	\$416	77.2%	39.0%
Total	13	100%	\$539	100.0%	100.0%

Real Estate Home Improvement 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	2	11%	\$27	7.0%	19.9%

<19,820					
Moderate-Income 19,821 - <31,680	8	44%	\$114	29.6%	16.3%
Middle-Income 31,681 - <47,520	3	17%	\$39	10.1%	24.8%
Upper-Income >47,521	5	28%	\$205	53.3%	39.0%
Total	18	100%	\$385	100.0%	100.0%

Real Estate Refinance 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	1	6%	\$30	2.6%	19.9%
Moderate- Income 19,821 - <31,680	4	24%	\$216	19.2%	16.3%
Middle-Income 31,681 - <47,520	5	29%	\$339	30.1%	24.8%
Upper-Income >47,521	7	41%	\$542	48.1%	39.0%
Total	17	100%	\$1,127	100.0%	100.0%

Businesses of Different Sizes

The First National Bank of Fairfield 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, 77 percent of the assessment area businesses have sales less than \$1 million. FNB originated 80 percent by number and 58 percent by dollar of commercial loans to small businesses. In addition, the bank originated 75 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.

Distribution of Commercial Loans by Revenue Size				
Revenue Size	Distribution by Number		Distribution by Dollar Volume	
	Number	Percent	Dollars	Percent
\$0 - \$100,000	10	50%	\$669,121	38%
\$100,001 to \$250,000	5	25%	\$327,644	19%
\$250,001 to	0	0%	\$0	0%

\$500,000				
\$500,001 to \$1,000,000	1	5%	\$25,686	1%
Greater than \$1,000,000	4	20%	\$748,114	42%
Total	20	100%	\$1,770,565	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 Census reports, 88 percent of the area farms have revenues less than \$1 million. FNB 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.

Distribution of Agricultural Loans by Revenue Size				
Revenue Size	Distribution by Number		Distribution by Dollar Volume	
	Number	Percent	Dollars	Percent
\$0 - \$100,000	7	35%	\$290,878	22%
\$100,001 to \$250,000	10	50%	\$765,204	59%
\$250,001 to \$500,000	2	10%	\$125,075	10%
\$500,001 to \$1,000,000	1	5%	125,000	9%
Greater than \$1,000,000	0	-	0	-
Total	20	100%	\$1,306,157	100%

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio indicates a reasonable responsiveness to area credit needs. There are several financial institutions within a 100-mile radius of the bank. These banks are similarly situated to FNB in size and business focus. We averaged each bank's loan-to-deposit ratio for the last thirteen quarters for comparison. During these thirteen quarters, FNB's loan-to-deposit ratio went from 51 percent on March 31, 2002, to 72 percent on December 31, 1999, with an average loan-to deposit ratio of 62 percent. The thirteen-quarter average loan-to-deposit ratio for the five similarly situated banks was 61 percent.

Geographic Distribution of Loans

The geographic distribution of loans is not a meaningful analysis for FNB of Fairfield due to the entire assessment area being defined as middle income.

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 1997.

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