

# **PUBLIC DISCLOSURE**

August 13, 2018

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Madison Valley Bank  
Certificate Number: 19544

213 East Main Street  
Ennis, Montana 59729

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
San Francisco Regional Office

25 Jessie Street at Ecker Square, Suite 2300  
San Francisco, California 94105

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.

## TABLE OF CONTENTS

Institution Rating .....	1
Scope of Evaluation .....	2
Description of Institution .....	4
Description of Assessment Area .....	6
Conclusions on Performance Criteria .....	11
Discriminatory or Other Illegal Credit Practices Review .....	17
Glossary .....	18

## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** First Madison Valley Bank (FMVB) is rated **Satisfactory**. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

FMVB's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test performance.

- The loan-to-deposit ratio (LTD) is reasonable given the institution's size, financial condition, and the credit needs of the AA.
- The bank made a substantial majority of its small business and home mortgage loans in the AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The distribution of borrowers reflects reasonable penetration of loans among businesses of different sizes and borrowers of different income levels.
- The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

## SCOPE OF EVALUATION

### *General Information*

This evaluation covers the period from the prior evaluation dated February 26, 2013, to the current evaluation dated August 13, 2018. Examiners used the Interagency Small Institution Examination Procedures to evaluate FMVB's CRA performance. These procedures include the Lending Test, which considers the following criteria.

- LTD ratio
- AA Concentration
- Geographic Distribution
- Borrower Profile
- Response to CRA-related complaints

This evaluation does not include any lending activity performed by affiliates.

### *Loan Products Reviewed*

According to bank management, the primary product line is small business loans followed by home mortgage loans. Based on the number and dollar volume of loans originated or purchased during the evaluation period, home mortgage loans are equally considered a primary product.

The most recent Consolidated Reports of Condition and Income (Call Report) dated June 30, 2018, indicates that commercial loans and home mortgage loans represent the primary loan products (43.6 percent commercial loans and 33.7 percent home mortgage loans). FMVB sells a significant number of home mortgage loans on the secondary market. These loans are not reported on the Call Report. In 2016, the bank originated and sold 36 home mortgage loans totaling \$7.8 million and in 2017, the bank originated and sold 35 home mortgage loans totaling \$7.7 million. According to bank management, small business lending activity represents the primary lending focus and strategy; however, based on the volume of home mortgage lending, small business and home mortgage loans received equal weight in the performance analysis under the Lending Test. No other loan product represents a major loan type, including small farm and consumer loans. Presentation of small farm loans and consumer loans does not provide meaningful analysis. For this reason, these products are not presented in this evaluation.

Bank records indicate that the lending focus and product mix remained consistent throughout the evaluation period. Examiners selected a sample of 23 small business loans for calendar year 2016 totaling approximately \$4.3 million and 28 small business loans for calendar year 2017 totaling approximately \$3.6 million. These samples were selected from a universe of 48 small business loans totaling approximately \$6.9 million in 2016 and 73 small business loans totaling approximately \$8.4 million in 2017. This sample is considered representative of the bank's performance during the evaluation period. 2017 D&B data is provided as a standard for comparison for small business loan analysis.

In addition, examiners selected a sample of 27 home mortgage loans totaling approximately \$4.9 million for calendar year 2016 and 31 home mortgage loans totaling approximately \$4.4 million for calendar year 2017. Samples of home mortgage loans were selected from a universe of 68

home mortgage loans totaling approximately \$11.4 million in 2016 and a universe of 108 home mortgage loans totaling approximately \$16.8 million in 2017. 2010 U.S. Census data is provided as a standard of comparison for the 2016 home mortgage loans and 2015 American Community Survey (ACS) Census data is provided as a standard of comparison for the 2017 home mortgage loans. Examiners considered that FMVB sells a significant portion of home mortgage loans in the secondary market that are not reflected on the Call Report when determining conclusions on performance.

Examiners reviewed and presented the number and dollar volume of small business loans and home mortgage loans; however, greater weight is given to the number of loans because the number is a better indicator of the number of businesses and individuals served within the AA.

## DESCRIPTION OF INSTITUTION

### ***Background***

FMVB is primarily a commercial institution operating in western-Montana. The bank is wholly-owned by Jackass Creek Land and Livestock Company, a one-bank holding company. The bank has no other affiliates. FMVB received a Satisfactory rating at its previous FDIC Performance Evaluation, dated February 26, 2013, based on Interagency Small Institution Examination Procedures.

### ***Operations***

FMVB operates its main office in Ennis, Montana, in Madison County. Additionally, FMVB operates three branch offices located in West Yellowstone, Gallatin County; Boulder, Jefferson County; and Montana City, Jefferson County, all in Montana. The branch office located in Montana City borders the southern portion of Lewis and Clark County. The bank did not open or close any branches and no merger or acquisition activities occurred since the previous evaluation. FMVB offers traditional loan products, including commercial loans, home mortgage loans, limited farm loans, consumer loans, and construction loans. The bank's primary business focus is commercial lending.

FMVB offers traditional deposit products for both commercial and consumer customers that include checking accounts, savings accounts, health savings accounts, money market accounts, certificates of deposit and individual retirement accounts. FMVB also offers holiday club accounts, travel cards, and gift cards.

Alternative banking services include overdraft lines of credit, business cash management services, domestic and international wire transfers services, night depository services, automated clearing-house services, safe deposit boxes, online banking, mobile banking, and nine automated teller machines (ATMs) throughout the AA. Of the nine ATMs, five are stand-alone ATMs. Three of the five stand-alone ATMs are deposit-taking and located in Madison County. The remaining four ATMs are attached to the bank's offices. Since the previous evaluation, FMVB removed six ATMs that were located in community retail stores and gas stations in Madison County. None of these ATMs were deposit-taking facilities and their removal has not adversely impacted LMI geographies.

### ***Ability and Capacity***

According to the June 30, 2018 Call Report, FMVB's assets totaled approximately \$162.9 million, and included \$86.3 million in total loans and \$61.5 million in total securities. Examiners evaluated FMVB's CRA performance, considering the bank's overall lending strategies, capacity to lend, lending opportunities and the level of competition throughout the AA.

The following table illustrates the loan portfolio mix reported on the June 30, 2018 Call Report.

<b>Loan Portfolio Distribution as of 6/30/2018</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	7,985	9.2
Secured by Farmland	1,361	1.6
Secured by 1-4 Family Residential Properties	28,056	32.5
Secured by Multi-family (5 or more) Residential Properties	999	1.2
Secured by Non-farm Non-Residential Properties	28,157	32.6
<b><i>Total Real Estate Loans</i></b>	<b>66,558</b>	<b>77.1</b>
Commercial and Industrial Loans	9,430	10.9
Agricultural Production and Other Loans to Farmers	3,003	3.5
Consumer	7,141	8.3
Obligations of States and Political Subdivisions in the United States	-	-
Other Loans	156	0.2
Lease Financing Receivables (net of unearned income)	-	-
<b><i>Gross Loans</i></b>	<b>86,288</b>	<b>100.0</b>
Less: Unearned Income	-	-
<b><i>Total Loans and Leases</i></b>	<b>86,288</b>	<b>100.0</b>
<i>Source: Call Report 6/30/2018</i>		

Examiners did not identify any financial, legal, or other impediments that affect FMVB's ability to meet the credit needs of its AA.

## DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more AA's within which its CRA performance will be evaluated. FMVB designated a single AA which includes three whole counties: Jefferson, Lewis and Clark, and Madison Counties, Montana. In addition, the AA includes one whole census tract (CT) in Gallatin County where one branch office is located in the southern portion of the county. The AA consists of 21 CTs in non-Metropolitan Statistical Areas (Non-MSAs). The AA has changed since the previous evaluation, to reflect the bank's reasonable ability to serve the AA. The following sections discuss the demographic and economic information, as well as the credit needs, opportunities, and competition within FMVB's AA.

### *Economic and Demographic Data*

According to the 2015 ACS Census data, the AA includes the following income designations:

- 0 low-income CTs,
- 1 moderate-income CT,
- 13 middle-income CTs,
- 7 upper-income CTs, and
- 0 CTs with no income designation.

All three CTs in Madison County have been designated as underserved middle-income CTs since 2013; however, consideration of underserved middle-income CTs does not contribute to the conclusions on performance under the Lending Test.

The income level of CTs within the AA remained unchanged from 2010 U.S. Census data to 2015 ACS Census data. For this evaluation, the bank's 2016 home mortgage performance is based on a comparison to the 2010 U.S. Census data and the 2017 home mortgage performance is based on a comparison to the 2015 ACS Census data. The Demographic Information of the Assessment Area table illustrates select demographic characteristics of the bank's AA.

Demographic Information of the Assessment Area						
Assessment Area: First Madison Valley Bank AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	21	0.0	4.8	61.9	33.3	0.0
Population by Geography	86,426	0.0	2.1	57.1	40.8	0.0
Housing Units by Geography	44,252	0.0	3.7	61.9	34.4	0.0
Owner-Occupied Units by Geography	25,274	0.0	2.6	56.1	41.3	0.0
Occupied Rental Units by Geography	10,209	0.0	1.8	64.3	33.9	0.0
Vacant Units by Geography	8,769	0.0	9.4	75.7	14.9	0.0
Businesses by Geography	7,816	0.0	1.6	65.9	32.5	0.0
Farms by Geography	402	0.0	6.0	72.6	21.4	0.0
Family Distribution by Income Level	22,280	15.1	15.4	21.5	48.1	0.0
Household Distribution by Income Level	35,483	17.0	15.3	17.1	50.6	0.0
Median Family Income Non-MSAs - MT		\$59,958	Median Housing Value			\$224,115
			Median Gross Rent			\$777
			Families Below Poverty Level			8.0%
<i>Source: 2010 U.S. Census data, 2015 ACS Census data, and 2017 D&amp;B data</i>						
<i>Due to rounding, totals may not equal 100.0</i>						
<i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2017 D&B data, there are 7,816 businesses in the AA. Gross annual revenues (GARs) for these businesses are as follows:

- 81.3 percent have \$1 million or less,
- 4.8 percent have more than \$1 million, and
- 13.9 percent have unknown revenues.

The analysis of small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level. The services industry represents the largest portion of businesses at 43.9 percent. This is followed by retail trade (11.0 percent); construction (8.6 percent); and finance, insurance, and real estate (8.2 percent).

The FFIEC estimated median family income level is used to analyze home mortgage loans under the Borrower Profile. The median family income ranges are shown in a table on the next page and illustrate the FFIEC-estimated median family incomes for 2016 and 2017 within the AA.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
<b>MT NA Median Family Income (99999)</b>				
2016 (\$60,300)	<\$30,150	\$30,150 to <\$48,240	\$48,240 to <\$72,360	≥\$72,360
2017 (\$60,500)	<\$30,250	\$30,250 to <\$48,400	\$48,400 to <\$72,600	≥\$72,600
<i>Source: 2016 and 2017 FFIEC-Estimated Median Family Income data</i>				

There are 44,252 housing units within the AA. Of these, 57.1 percent are owner occupied, 23.1 percent are occupied rental units, and 19.8 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

According to the FDIC summary of deposits, FMVB’s main office holds the greatest percentage of deposits for the bank’s offices with a total of \$86.1 million representing 60.4 percent of total deposits. This is followed by the West Yellowstone branch holding 14.6 percent of deposits; the Boulder branch holding 13.5 percent of deposits; and the Clancy branch located in Montana City holding 11.5 percent of deposits. FMVB’s main office has the greatest presence and amount of banking activity; however, this branch is located in Madison County, which does not have any LMI CTs and the town of Ennis is rural and a seasonal tourist town.

According to Moody’s Analytics data for March 2018, Montana overall has an under-performing economy in the west. Job growth is fueled by state surges in the tourism industry. Housing prices are appreciating in recent years and are closely aligned with the national average. Montana continues to maintain a relatively low cost of living by comparison to national averages. Expansion in the tourism and healthcare industries are narrowing Montana’s employment growth gaps with the rest of the west and nationally. The top industries for employment include government (state and local) at 19.3 percent. This is followed by education and health services (16.2 percent); leisure and hospitality services (13.8 percent); and retail trade (12.5 percent).

According to data obtained from the U.S. Bureau of Labor Statistics, the state unemployment rate as of June 2018 was 3.8 percent. This compares to the national average for the same period of 4.2 percent. Specifically, Madison County was at 3.5 percent; Gallatin County was at 2.3 percent; Jefferson County was at 3.7 percent; and Lewis and Clark County was at 3.3 percent as of June 2018. Overall, the AA is below the State of Montana’s unemployment average and the national unemployment average.

The following table illustrates the unemployment rates for 2016 and 2017 in each county included in the bank's AA.

<b>Unemployment Rates</b>			
<b>Area</b>	<b>2016</b>	<b>2017</b>	<b>As of June 2018</b>
Gallatin County	2.9	3.0	2.3
Jefferson County	4.5	4.4	3.7
Lewis and Clark County	3.7	3.7	3.3
Madison County	4.0	4.4	3.5
Montana	4.0	4.1	3.8
National Average	4.5	3.9	4.2
<i>Source: U.S. Bureau of Labor Statistics</i>			

According to Data USA the most common employment opportunities in Madison County are for management, business, and science and arts, followed by services, natural resources, and construction jobs. Gallatin County has similar opportunities with management, business, science and arts, and services employment, but also has opportunities in sales and office work. Both Jefferson and Lewis and Clark Counties have similar employment opportunities in the same industries as Gallatin County.

***Competition***

According to the FDIC Deposit Market Share data as of June 30, 2017, competition within the bank's AA is high, given the number of institutions (19) that operate 74 full-service branches, marketing financial services. Of these institutions, FMVB ranks 10<sup>th</sup>, operating four offices, and holds 3.2 percent of the total deposit market share. The five most prominent institutions represent approximately 68.0 percent of the deposit market and include three multi-regional non-local institutions. FMVB is not required to collect or report small business loan data and the bank has not elected to do so. Therefore, examiners relied on 2017 D&B data as a comparison, when analyzing small business loans under the Lending Test.

***Community Contact***

As part of the evaluation process, examiners contact third-party representatives within the AA to assist in the identification of credit needs and opportunities. This information also helps to assess whether local financial institutions are responsive to those needs. Additionally, the information assisted examiners in determining FMVB's level of responsiveness to the needs within its AA.

Examiners contacted two individuals, one representing an economic development organization and the other representing the real estate market within the AA. The representatives indicated that there has been a shift in revenues for the communities in recent years with less oil, gas, and logging extraction and an increase in local government initiatives, as well as healthcare, retail trades and the service industries. Also, a growing industry includes financial technology businesses that are emerging throughout the AA. Competition for attracting small businesses in the smaller communities is a challenge due to the close proximity to larger more attractive metropolitan locations in Montana like Missoula and Billings. The contacts indicated that these

challenges have an impact on economic stability and business growth, further identifying that establishment of small businesses as a credit need.

The representative from the real estate market explained that housing is a challenge with limited housing stock available that is affordable, whether for purchase or for rental. With a diminishing logging industry, the price of lumber is adversely affecting the ability to construct affordable housing for single-family and multi-family units. Although unemployment is low, a majority of the AA work-force is employed in entry level positions with state and local government or in the services industry. This factor further impacts the capacity of LMI individuals and families to secure affordable housing. The contacts indicated that local financial institutions are responsive and actively participating in state and federal affordable housing initiatives. Additionally, the contacts indicated that financial institutions have been responsive to the overall credit needs of the AA.

### ***Credit Needs and Opportunities***

Considering information from the community contacts, bank management, demographic, and economic data, examiners determined that small business lending is a primary need for the AA. According to community contacts and bank management opportunity exists for originating these types of loans. Also home mortgage loans are a credit need for the AA.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

FMVB demonstrated reasonable performance under the Lending Test. Geographic Distribution and Borrower Profile performance primarily support this conclusion.

### Loan-to-Deposit Ratio

The LTD ratio is reasonable given the size, financial condition, and credit needs of the AA. FMVB's LTD ratio, calculated from Call Report data, averaged 58.7 percent over the previous 22 quarters from March 31, 2013, through June 30, 2018. The ratio ranged from a low of 52.9 percent to its highest point at 63.1 percent for the review period. Overall the LTD ratio remains relatively consistent throughout the period. FMVB's LTD ratio is similar to those of comparable institutions in the AA and surrounding areas. Comparable institutions were selected based on asset size, geographic locations, lending focus, and the rural nature of the market area in relation to FMVB.

Loan-to-Deposit Ratio		
Bank	Total Assets as of 6/30/2018 (\$000s)	Average Net LTD Ratio (%)
FMVB	\$162,922	58.7
Institution A	\$171,616	62.5
Institution B	\$110,909	67.4
Institution C	\$79,704	66.1

*Source: Call Report data 6/30/2018*

FMVB's LTD ratio has been primarily affected by economic factors including the fact that the primary deposit holding office is located in a tourist town with significant seasonality. Also, each of the counties within the AA contains a percentage of retirees who add to the deposit base but are not in need of loans. Specifically, Madison County, where the branch with the greatest deposit base percentage and banking activity is located, has approximately 24.7 percent of its population that is over the age of 65. Generally, individuals of this age are retired and do not need typical financing. Further, the bank sells a significant portion of the home mortgage loans to the secondary market as discussed previously. Loans sold to the secondary market are not reflected in the LTD ratio. For these reasons, FMVB's reasonable LTD ratio is supported.

### Assessment Area Concentration

FMVB made a substantial majority of small business loans and home mortgages loans, by number and dollar volume within its AA. The Lending Inside and Outside of the Assessment Area table illustrates that 44 of the sampled small business loans or 86.3 percent by number were originated within the AA for the review period. In addition, 53 home mortgage loans or 91.4 percent by number for the review period were originated within FMVB's AA.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business										
2016	18	78.3	5	21.7	23	3,359	78.1	944	21.9	4,303
2017	26	92.9	2	7.1	28	3,216	90.4	341	9.6	3,557
<b>Subtotal</b>	<b>44</b>	<b>86.3</b>	<b>7</b>	<b>13.7</b>	<b>51</b>	<b>6,575</b>	<b>83.7</b>	<b>1,285</b>	<b>16.3</b>	<b>7,860</b>
Home Mortgage										
2016	24	88.9	3	11.1	27	4,488	92.5	366	7.5	4,854
2017	29	93.5	2	6.5	31	3,954	90.1	433	9.9	4,387
<b>Subtotal</b>	<b>53</b>	<b>91.4</b>	<b>5</b>	<b>8.6</b>	<b>58</b>	<b>8,442</b>	<b>91.4</b>	<b>799</b>	<b>8.6</b>	<b>9,241</b>
<b>Total</b>	<b>97</b>	<b>89.0</b>	<b>12</b>	<b>11.0</b>	<b>109</b>	<b>15,017</b>	<b>87.8</b>	<b>2,084</b>	<b>12.2</b>	<b>17,101</b>
<i>Source: Evaluation Period: 1/1/2016 - 12/31/2017 Bank Data            Due to rounding, totals may not equal 100.0</i>										

**Geographic Distribution**

The geographic distribution of small business and home mortgage loans reflects reasonable dispersion throughout the AA. FMVB’s reasonable performance of small business lending and home mortgage lending supports this conclusion. Examiners focused on the percentage by number of loans in LMI geographies.

***Small Business Loans***

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. The Geographic Distribution of Small Business Loans table illustrates the bank’s small business lending performance throughout all income tracts of FMVB’s AA.

Geographic Distribution of Small Business Loans					
Assessment Area: First Madison Valley Bank AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
<b>Moderate</b>					
2016	1.7	0	0.0	0	0.0
2017	1.6	0	0.0	0	0.0
<b>Middle</b>					
2016	66.2	15	83.3	2,957	88.0
2017	65.9	20	76.9	2,554	79.4
<b>Upper</b>					
2016	32.1	3	16.7	402	12.0
2017	32.5	6	23.1	662	20.6
<b>Totals</b>					
2016	100.0	18	100.0	3,359	100.0
2017	100.0	26	100.0	3,216	100.0
<i>Source: 2016 and 2017 D&amp;B Data; 1/1/2016 - 12/31/2017 Bank Data; Due to rounding, totals may not equal 100.0</i>					

FMVB's AA does not contain any low-income CTs; therefore, low-income CTs are not presented.

FMVB did not originate small business loans in the moderate-income CT in 2016 or 2017; however, only 1.7 percent of businesses were located in this CT in 2016 and only 1.6 percent of businesses were located in this CT in 2017. These percentages would equate to less than one bank loan based on the sample sizes. Further, there is no bank branch in or near the moderate-income CT in Lewis and Clark County. The nearest bank branch is significantly south in Jefferson County. In order to obtain services from FMVB, individuals would need to travel to another county and pass several financial institutions, including those located in the city of Helena, the county seat as well as Montana's capital city. Considering all of these factors, the geographic distribution for small business loans is reasonable.

### ***Home Mortgage Loans***

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA. The Geographic Distribution of Home Mortgage Loans table illustrates the bank's record of home mortgage lending throughout moderate-, middle-, and upper-income tracts within the AA.

<b>Geographic Distribution of Home Mortgage Loans</b>					
<b>Assessment Area: First Madison Valley Bank AA</b>					
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Moderate</b>					
2016	2.3	0	0.0	0	0.0
2017	2.6	0	0.0	0	0.0
<b>Middle</b>					
2016	59.3	18	75.0	3,270	72.9
2017	56.1	13	44.8	2,140	72.4
<b>Upper</b>					
2016	38.4	6	25.0	1,218	27.1
2017	41.3	16	55.2	1,814	61.4
<b>Totals</b>					
2016	100.0	24	100.0	4,488	100.0
2017	100.0	29	100.0	3,954	100.0

*Source: 2010 U.S. Census data and 2015 ACS Census data; 1/1/2016 - 12/31/2017 Bank data;  
Due to rounding, totals may not equal 100.0*

As stated previously, FMVB's AA does not contain any low-income CTs; therefore low-income CT information is not presented.

FMVB did not originate home mortgage loans in 2016 and 2017 within the moderate-income CT inside its AA; however, only 2.3 percent of owner-occupied housing units were located in this CT in 2016 and only 2.6 percent of owner-occupied housing units were located in this CT in 2017. These percentages would equate to less than one bank loan based on the sample sizes. Further, there is no bank branch in or near the moderate-income CT in Lewis and Clark County. The nearest bank branch is significantly south in Jefferson County. In order to obtain services from FMVB, individuals would need to travel to another county and pass several financial institutions, including those located in the city of Helena, the county seat as well as Montana's capital city. Considering all of these factors, the geographic distribution for home mortgage loans is reasonable.

### **Borrower Profile**

The distribution of borrowers reflects reasonable penetration among businesses of different sizes and individuals of different income levels within FMVB's AA. The bank's reasonable performance of small business and home mortgage lending supports this conclusion. Examiners focused on the percentage by number of small business loans to businesses with GARs of \$1 million or less and on the percentage by number of home mortgage loans to LMI borrowers.

### ***Small Business Loans***

FMVB's record of lending to businesses with GARs of \$1 million or less reflects reasonable penetration. The following table illustrates the bank's record of small business lending to businesses with GARs of \$1 million or less.

<b>Distribution of Small Business Loans by Gross Annual Revenue Category</b>					
<b>Assessment Area: First Madison Valley Bank AA</b>					
<b>Gross Revenue Level</b>	<b>% of Businesses</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>&lt;=\$1,000,000</b>					
2016	81.4	15	83.3	2,799	83.3
2017	81.3	23	88.5	2,966	92.2
<b>&gt;1,000,000</b>					
2016	4.8	3	16.7	560	16.7
2017	4.8	3	11.5	250	7.8
<b>Revenue Not Available</b>					
2016	13.8	0	0.0	0	0.0
2017	13.9	0	0.0	0	0.0
<b>Totals</b>					
2016	100.0	18	100.0	3,359	100.0
2017	100.0	26	100.0	3,216	100.0

*Source: 2016 and 2017 D&B data; 1/1/2016 - 12/31/2017 Bank data;  
Due to rounding, totals may not equal 100.0*

In 2016, FMVB originated 15 small business loans representing 83.3 percent of originations to businesses with GARs of \$1 million or less. In 2017, FMVB's originations increased to 23 small business loans representing 88.5 percent to businesses with GARs of \$1 million or less. This level of lending activity compares reasonably to the percent of businesses in this revenue category, as shown by the 2016 and 2017 D&B data. With commercial lending as the primary lending strategy and focus, this level of small business lending activity demonstrates FMVB's commitment to meeting the small business credit needs of its AA. Considering the seasonality of multiple areas within the banks AA, the reasonable performance is supported.

### ***Home Mortgage Loans***

The distribution of home mortgage loans among borrowers of different income levels reflects reasonable penetration within the bank's AA. The Distribution of Home Mortgage Loans by Borrower Income Level table illustrates the bank's reasonable penetration.

<b>Distribution of Home Mortgage Loans by Borrower Income Level</b>					
<b>Assessment Area: First Madison Valley Bank AA</b>					
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
<b>Low</b>					
2016	12.8	3	12.5	304	6.8
2017	15.1	6	20.7	443	11.2
<b>Moderate</b>					
2016	16.1	4	16.7	492	11.0
2017	15.4	3	10.3	163	4.1
<b>Middle</b>					
2016	20.6	2	8.3	197	4.4
2017	21.5	6	20.7	870	22.0
<b>Upper</b>					
2016	50.5	11	45.8	2,779	61.9
2017	48.1	11	37.9	1,851	46.8
<b>Not Available</b>					
2016	0.0	4	16.7	716	15.9
2017	0.0	3	10.3	627	15.9
<b>Totals</b>					
2016	100.0	24	100.0	4,488	100.0
2017	100.0	29	100.0	3,954	100.0
<i>Source: 2010 U.S. Census data and 2015 ACS Census data ; 1/1/2016 - 12/31/2017 Bank data; Due to rounding, totals may not equal 100.0</i>					

FMVB originated three home mortgage loans representing 12.5 percent of its home mortgage loans to low-income individuals in 2016, which is similar to the 12.8 percent of low-income families in the AA. The bank increased the number of home mortgage loans originated to low-income individuals in 2017 to six, representing 20.7 percent of its home mortgage loans. This performance exceeds that of the percentage of low-income families which is 15.1 percent in 2017. Further, 8.0 percent of families within the AA are below the poverty level. Families below poverty levels may not meet the qualifications for standard financing.

FMVB originated four home mortgages loans to moderate-income borrowers in 2016 representing 16.7 percent of the bank's home mortgage loans. This is similar to the percentage of moderate-income families of 16.1 percent. In 2017, the bank's home loan originations declined by one loan to three home mortgage loans to moderate-income borrowers representing 10.3 percent. This performance is lower than the demographic data at 15.4 percent; however, it is still in line with the data. Overall, the bank has a reasonable record of lending to individuals of different income levels.

**Response to Complaints**

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the bank's Lending Test rating.

**DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore this consideration did not affect FMVB's overall CRA rating.

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

**Home Mortgage Loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Micropolitan Statistical Area:** CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area:** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic

branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.