

PUBLIC DISCLOSURE

October 7, 2024

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Montana
Certificate Number: 58482

125 Bank St
Missoula, Montana 59802

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

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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.

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INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Satisfactory.

- The loan-to-deposit (LTD) ratio is reasonable considering seasonal variation and taking into account lending-related activities given the institution's size, financial condition, and credit needs of the assessment area (AA).
- A majority of the institution's small business loans are inside its AA.
- The geographic distribution of small business loans reflects reasonable dispersion throughout the AA.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among businesses of different sizes.
- The bank did not receive any complaints regarding its CRA performance since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DESCRIPTION OF INSTITUTION

Bank of Montana is located in Missoula, Montana, and operates primarily in Missoula County. Bank of Montana is a subsidiary of Bancorp of Montana Holding Company, a one bank holding company, also located in Missoula. Bank of Montana has no other affiliates or subsidiaries, and received a Satisfactory rating at its previous November 5, 2018 FDIC CRA Performance Evaluation (PE), based on Interagency Small Institution Examination Procedures. The bank has not been involved with any merger or acquisition activities since the previous evaluation.

The bank has one full-service branch located in Missoula, and no branches have been opened or closed since the previous evaluation. Bank of Montana offers a variety of deposit products, such as checking and savings deposits, and certificate of deposit for personal and commercial consumers. Although Bank of Montana focuses on commercial lending products, including real estate and non-real estate loans, the bank also offers consumer non-residential and residential real estate loans. The bank does not have any ATMs and offers mobile and online banking services.

As of the June 30, 2024 Consolidated Reports of Condition and Income (Call Report), Bank of Montana reported \$296.9 million in total assets, \$268.4 million in total deposits, and \$89.5 million in total loans. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 6/30/2024		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	1,655	1.8
Secured by Farmland	0	0.0
Secured by 1-4 Family Residential Properties	9,569	10.7
Secured by Multifamily (5 or more) Residential Properties	2,813	3.1
Secured by Nonfarm Nonresidential Properties	16,334	18.3
Total Real Estate Loans	30,371	33.9
Commercial and Industrial Loans	56,934	63.6
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	2,190	2.5
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	0	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(3)	0.0
Total Loans	89,492	100.0
<i>Source: Reports of Condition and Income</i>		

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

DESCRIPTION OF ASSESSMENT AREA

The bank’s AA remains unchanged since the previous evaluation. Examiners relied on bank records, public financial information, demographic data from the 2020 U.S. Census, 2023 Dun & Bradstreet (D&B) Data, and information obtained from one community contact. Bank of Montana has one AA that includes the entire county of Missoula, located within the Missoula Metropolitan Statistical Area (MSA) #33540 in western Montana. As a result of the 2020 U.S. Census, census tract (CT) delineations were added and/or reclassified in the AA. The institution’s AA meets the regulatory guidelines and does not reflect illegal discrimination or arbitrarily exclude any low- and moderate-income areas. In addition, according to 2020 U.S. Census data, the AA is comprised of 5 moderate-income, 16 middle-income, and 7 upper-income CTs, and 1 CT for which income is not available. The following sections discuss the demographic and economic information of the AA.

Economic and Demographic Data

The following table provides select demographic data for the Missoula MSA AA.

Demographic Information of the Assessment Area						
Missoula MSA Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	29	0.0	17.2	55.2	24.1	3.4
Population by Geography	117,922	0.0	15.0	50.2	31.4	3.4
Housing Units by Geography	54,731	0.0	16.8	52.1	27.7	3.3
Owner-Occupied Units by Geography	29,113	0.0	12.9	51.2	34.9	1.1
Occupied Rental Units by Geography	20,587	0.0	19.2	53.9	20.7	6.2
Vacant Units by Geography	5,031	0.0	30.0	50.7	14.6	4.8
Businesses by Geography	38,828	0.0	20.6	44.2	27.1	8.1
Farms by Geography	961	0.0	16.5	47.7	29.1	6.7
Family Distribution by Income Level	27,624	17.5	20.1	21.9	40.5	0.0
Household Distribution by Income Level	49,700	23.5	17.1	17.7	41.6	0.0
Median Family Income MSA - 33540 Missoula, MT MSA		\$76,923	Median Housing Value			\$305,368
			Median Gross Rent			\$923
			Families Below Poverty Level			6.1%
<i>Source: 2020 U.S. Census and 2023 D&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>						

The largest industries in the area are non-classifiable establishments at 40.3 percent, followed by services at 27.9 percent. These businesses are predominantly small operations with 97.0 percent operating from a single location, and 52.5 percent employing less than five employees.

Data from the 2020 Census indicates the AA experienced growth since the 2015 American Community Survey, with the population increasing by 5,956 residents or 5.9 percent and housing increasing by 3,315 units. Employment opportunities remain prevalent within the AA, accounting for the historically low unemployment levels during the majority of the evaluation period. According to the U.S. Bureau of Labor Statistics, the average unemployment rate in the AA was the same as the State of Montana, at 2.9 percent, during the evaluation period.

Competition

The AA is highly competitive for financial services. According to the FDIC Deposit Market Share data as of June 30, 2024, 11 financial institutions operated 34 branches within the AA. Bank of Montana has one branch in the AA and is ranked seventh in deposit market share with 7.3 percent of the total deposits. Comparatively, the top three institutions by deposit market share combined operated 14 branches and had 57.9 percent of the total deposits. The bank competes with these institutions, as well as credit unions, and non-traditional creditors and dealers for loans.

Community Contacts

As part of the evaluation process, examiners contact third parties active in the AA to assist in understanding economic conditions and identifying its credit needs. This information helps to determine whether local financial institutions are responsive to these needs. It also shows what credit opportunities are available.

Examiners utilized a prior community contact interview done with a representative from a Missoula governmental organization. The contact stated the economy has been relatively strong over the last decade, with minor fluctuations, and noted that the economy continues to grow despite inflation. The major employers in the area include the local university and school district systems, hospitals, and federal and state governments. The contact indicated the population is young and the cost of housing is steep for new homeowners, making it challenging for low- and moderate-income borrowers to afford housing. The contact noted that local financial institutions are generally meeting the credit needs of the community; however, the lending opportunities for affordable housing have not kept pace with the need.

Credit Needs

Considering area demographics, economic data, conversations with management, and the community contact, examiners determined that small business lending and affordable housing are the most significant credit needs of the AA. Although small business lending represents a critical need of the AA, opportunities are limited due to high competition and limited availability. The AA contains multiple other community banks, national banks, and credit unions that offer similar services, creating an intense, competitive market for small business lending.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated November 5, 2018 to the current evaluation as of October 7, 2024. Examiners used the Interagency Small Institution CRA Examination Procedures to evaluate performance. Examiners conducted a full-scope review of the bank's AA.

Activities Reviewed

Examiners determined that the bank's major product line is small business loans using the bank's loan data. This conclusion considered the bank's number and dollar volume of loans originated during the evaluation period and the bank's business strategy. Small farm loans were not evaluated because the bank does not offer these types of loans. Home mortgage loans were not evaluated due to the small volume of originations. Also, no other types of loans, such as consumer loans, represent a major product line; therefore, they provided no material support for conclusions or ratings and are not presented. The bank does not have any lending affiliates that were considered as part of the evaluation.

Examiners only presented lending data for 2023 since the bank does not collect or report CRA data. In 2023, Bank of Montana's universe of small business loans were 15 loans totaling \$3.4 million. Examiners utilized the entire universe for the AA concentration, the geographic distribution, and the borrower profile analyses. The universe of small business loans is considered to be representative of the institution's performance during the evaluation period. For the Lending Test, examiners reviewed the number and dollar volume of small business loans. While the number and dollar volume of loans are presented, examiners emphasized the number of loans, as it is a stronger indicator of number of businesses served.

Given that the AA contains no low-income CTs and five moderate-income CTs, greater weight was given to the borrower profile performance, followed by geographic distribution performance, AA concentration, and the average net LTD Ratio.

The 2023 D&B data is provided for comparative purposes in the analyses of the borrower profile and geographic distribution of small business loans in the institution's AA. The data is based on geographic location using the 2020 U.S. Census data boundaries for the total number of businesses within the AA and the gross annual revenues (GAR) of those businesses.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Bank of Montana demonstrated reasonable performance under the Lending Test. The bank's reasonable LTD ratio, a majority of loans originated in the AA, a reasonable dispersion of loans throughout the AA, and a reasonable penetration among businesses of different revenue sizes support this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is reasonable, considering seasonal variations and taking into account lending-related activities, given the institution's size, financial condition, and AA credit needs. Examiners considered 23 quarters for the LTD ratio calculation. The quarter with the lowest ratio was Q1 2024 at 32.1 percent, and the quarter with the highest ratio was Q2 2019 at 100.6 percent. The LTD ratio has been in a downward trend since the last CRA performance evaluation. The bank's LTD ratio was 87.8 percent at the 2018 CRA performance evaluation. Examiners identified three similarly situated institutions that operate in and serve economic and geographic areas similar to Bank of Montana's AA. These institutions were selected based on asset size, product offerings, and loan portfolio composition.

LTD Ratio Comparison		
Bank	Total Assets as of 06/30/2024 (\$000s)	Average Net LTD Ratio (%)
Bank of Montana	298,868	59.5
First Montana Bank, Inc.	564,198	77.8
American Bank	625,096	66.5
Eagle Bank	145,399	72.5
<i>Source: Call Report 12/31/2018 – 06/30/2024</i>		

Through discussions with bank management, examiners obtained information regarding factors influencing the bank’s LTD ratio. The bank has approximately 15 large depositors that make up approximately \$70.0 to \$100.0 million in deposits. These clients have a long-standing relationship with the bank or are individuals who have ownership in the bank. The bank conducts daily monitoring of these large relationships. Without these relationships, the bank’s LTD would more closely approximate the LTDs of the comparable institutions.

Assessment Area Concentration

The majority of the bank’s loans and other lending-related activities are in the institution’s AA. Overall, the percentage of small business loans originated within Bank of Montana’s AA reflects the bank’s commitment to lend within the communities it serves. The bank takes part in participation loans, including loans that come from outside the AA. Also, one of the bank’s niche product lines, aviation loans, has primarily come from outside the AA. Refer to the table below for additional details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$(000s)	%	\$(000s)	%	
Small Business	10	66.7	5	33.3	15	1,878	54.6	1,559	45.4	3,437
<i>Source: Bank Data; Due to rounding, totals may not equal 100.0%</i>										

Geographic Distribution

The geographic distribution of small business loans reflects reasonable dispersion throughout the AA. Demographic data and strong competition for small business lending demonstrate limited opportunity to lend in moderate-income CTs. Furthermore, Bank of Montana competes with credit unions and community banks that have branches within the moderate-income CTs. Overall, there is intense competition in the bank’s AA, and it is difficult for the bank to compete with the lower rates that credit unions offer.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Moderate	20.6	2	20.0	516	27.5
Middle	44.2	5	50.0	364	19.4
Upper	27.1	1	10.0	48	2.6
Not Available	8.1	2	20.0	950	50.5
Total	100.0	10	100.0	1,878	100.0

Source: 2023 D&B Data; Bank Data; Due to rounding, totals may not equal 100.0%

Borrower Profile

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among businesses of different sizes. This conclusion is supported by the institution's distribution of the small business loans to small businesses with GARs of \$1 million or less. Management stated that there is less demand for smaller dollar loans and that loan amounts have scaled up over the years. A rise in home prices has been detrimental to the bank's ability to make small business loans since small business owners may utilize HELOCs rather than small business loans to fund their operations.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	93.3	7	70.0	837	44.6
>\$1,000,000	1.4	3	30.0	1,041	55.4
Revenue Not Available	5.2	0	0.0	0	0.0
Total	100.0	10	100.0	1,878	100.0

Source: 2023 D&B Data; Bank Data; Due to rounding, totals may not equal 100.0%

Response to Complaints

Bank of Montana did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Bank of Montana's compliance with laws related to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or illegal credit practices.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

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).

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 (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., 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 Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

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 (e.g., 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.

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 (also known as non-MSA): 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.