



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 05, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American Federal Savings Bank
Charter Number: 704902

1400 Prospect Avenue
Helena, MT 59601-0000

Office of the Comptroller of the Currency

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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 Outstanding

The Lending Test is rated: Outstanding.

The Community Development Test is rated: Outstanding.

The major factors to support American Federal's rating are:

- The loan-to-deposit ratio is more than reasonable.
- A substantial majority of all loans sampled were originated inside the Assessment Area (AA).
- Lending to borrowers of different income levels and businesses of different sizes has reasonable penetration.
- Lending to borrowers in different geographies of different income levels has excellent dispersion.
- The institution has demonstrated excellent responsiveness to the community development needs in the assessment area.

Scope of Examination

American Federal's Community Reinvestment Act (CRA) performance was evaluated under the Intermediate Small Bank (ISB) criteria. This is the first year the institution was evaluated under this criteria, a result of the asset size exceeding \$280 million, but remaining below \$1.12 billion, the prior two calendar years. The ISB criteria requires an assessment under the lending test and community development (CD) test.

Under the lending test, we reviewed the loan-to-deposit ratio from March 31, 2005 through September 30, 2011. We also reviewed a sample of the primary loan products; residential mortgages and nonresidential mortgages, from January 1, 2009 through September 30, 2011. We concluded on the amount of lending in the assessment area, the volume of lending to individuals of different income levels, the dispersion of lending in different geographies, and the volume of lending to businesses of different sizes.

Under the CD test, we reviewed CD loans, investments, and services from March 31, 2005 through December 5, 2011, to determine if the CD activities met the definition of 12 C.F.R. § 25.12 and the needs of the community.

Description of Institution

American Federal Savings Bank (American Federal or institution) has had a presence in the Helena area for almost 90 years. The institution was originally chartered as a building and loan association, but now operates as a federal savings bank. The institution is 100 percent owned by Eagle Bancorp Montana, Inc. Eagle Bancorp Montana, Inc is a publicly-owned stock company whose primary business is to hold the capital stock of American Federal (NASDAQ: EBMT).

American Federal operates six full service branches and seven Automated Teller Machines in western Montana. The main branch, along with a few smaller branches, is located in Helena. Other branches outside Helena include Bozeman, Butte, and Townsend. Although the number of branches has not changed since the prior evaluation period, the long-standing Bozeman branch was replaced by a newer facility less than one mile away.

Historically, American Federal has focused on mortgage lending and consumer deposits. However, over the past few years, management strategically decided to expand commercial and commercial real estate loans in their portfolio to 25 percent of total loans. Table 1 shows the loan portfolio make-up as of the most recent quarter.

Table 1 - Loan Portfolio Summary as of September 30, 2011			
	% of Total Assets	% of Gross Loans	Dollar amount
Residential Mortgage	31.44	53.05	101,049
Nonresidential mortgage	17.29	29.17	55,576
Construction	1.28	2.15	4,103
Land	2.61	4.40	8,377
Commercial Nonmortgage	3.79	6.40	12,190
Consumer	2.86	4.83	9,202
Total	59.27	100.00	190,497

Source: Uniform Thrift Performance Report. Dollar amounts are in thousands

The business plan includes continuing participation in government lending programs that are essential in providing low and moderate income individuals and small businesses access to credit. Such lending programs include the Small Business Administration, Federal Housing Administration, U.S. Department of Veterans Affairs, U.S. Department of Agriculture Rural Development, Montana Board of Housing, and Human Resource Development Council. Additionally, the institution has recently offered a unique small loan program to assist individuals with medical expenses.

Management and the board encourage employees to be involved with the community by volunteering with local housing and community development organizations. All employees receive up to 12 hours of paid leave, per year, for the service they provide to local organizations.

Management continues to actively look for future branching efforts through strategic acquisitions. American Federal was rated outstanding as a Small Bank, in the prior

evaluation period.

Description of Assessment Area

American Federal has one designated assessment area (AA). This AA meets the requirements of the regulation, does not arbitrarily exclude any low or moderate income areas, and does not have any evidence of illegal discrimination.

American Federal's AA consists of five contiguous counties: Broadwater, Gallatin, Jefferson, Lewis and Clark, and Silver Bow. The AA considers all census tracts in the five counties, totaling 39. None of the census tracts are considered to have a low income level, two are moderate income level, and 18 are middle income level, with the remaining 19 being upper income levels. Silver Bow County's two census tracts have been designated as an underserved area by definition of the Federal Financial Institutions Examination Council. This means the size, density, and dispersion indicates the population is sufficiently small, thin, and distant from a population center and the area has difficulty financing the fixed costs of meeting the essential needs of the community.

There is a considerable amount of competition, with 27 financial institutions in the AA. American Federal has 5.87 percent, or \$210 thousand, of the total market share in according to June 30, 2011 Federal Deposit Insurance Corporate Summary of Deposits Report. The Helena branches make up 49.85 percent of the institution's market share, Bozeman has 18.72 percent, Townsend has 6.17 percent, and Butte has 5.27 percent.

Based on the 2000 U.S. Census, the total population in the AA is 173 thousand and the total number of families is 44 thousand. The Housing of Urban Development weighted average median family income level is \$56 thousand.

The average unemployment rate of the five counties was 6.56 percent according to the June 30, 2011 Federal Deposit Insurance Corporation's Regional Economic Conditions report. This is slightly below the state of Montana's unemployment rate of 7.4 percent. When reviewing the counties individually, Broadwater County is the highest in the AA and higher than the state's average of 7.9 percent. Gallatin County is a close second, at 7.2 percent.

The state of Montana's top industries by number employed are government agencies (21 percent), educational and health services (15 percent), retail trade (13 percent), and leisure and hospitality (13 percent). The state capital is Helena, MT, located in Lewis and Clark County.

Our community contact outreach discussions were held with two state-wide organizations that serve the institution's AA. Both contacts stated the following:

- Financial institutions have implemented stricter underwriting guidelines as a result of the recent recession.
- Low and moderate income individuals and families have credit needs that cannot

always be met.

- Local non-profits have a never-ending need for investments and donations.
- Financial institutions have been good to work with and have thankfully contributed to their organizations.

Conclusions with Respect to Performance Tests

LENDING TEST

American Federal’s performance under the lending test is outstanding.

Loan-to-Deposit Ratio

American Federal’s loan-to-deposit ratio is more than reasonable for the institution’s size, capacity to lend, demographic factors, and available lending opportunities.

The average loan-to-deposit ratio in the evaluation period is 86 percent. The peer group’s average loan-to-deposit ratio is 92.84 percent. The peer group used included eight financial institutions in the same AA. Table 2 below shows a summary of the annual ratios compared to peer’s average.

Table 2 - Loan to Deposit Ratios							
	09/2011	12/2010	12/2009	12/2008	12/2007	12/2006	12/2005
American Federal	88.68	94.11	85.92	99.66	94.66	85.17	71.35
Peer Group	77.68	81.60	93.61	104.20	97.45	93.03	89.04

Source: Uniform Thrift and Bank Performance Reports. Peer Group consists of eight financial institutions in American Federal’s AA.

In addition to the loans held on the books, American Federal has originated mortgages which are subsequently sold on the secondary market. They hold the servicing rights for the majority of these sold loans. In 2008 through 2010, the institution saw mortgage activity increase as rates significantly decreased. However, in 2011 the activity has started to level out again. Table 3 below shows a summary of the American Federal’s mortgage loan activity from the current year and the prior two years.

Table 3 – American Federal’s Mortgage Loan Activity			
	09/2011	12/2010	12/2009
Mortgage loans originated	76,280	162,831	206,395
Mortgage loans sold	46,534	107,219	151,561
Loans serviced for others	343,423	332,667	291,151

Source: Uniform Thrift Financial Report. Numbers in Thousands.

Lending in Assessment Area

The substantial majority of all loan originations sampled were inside the AA.

Nearly all residential mortgage loan originations sampled were within the AA, at 97.22 percent by number and 96.74 by dollar volume. A large majority of the nonresidential mortgages were within the AA, at 83.33 percent by number and 71.72 percent by dollar volume. Table 4 shows the results from the lending in the AA test.

Table 4 - Lending in American FSB's Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Mortgage	35	97.22	1	2.78	36	5,357	96.74	181	3.26	5,538
Nonresidential mortgage	20	83.33	4	16.67	24	13,303	71.72	5,245	28.28	18,548
Totals	55		5		60	18,660		5,426		24,086

Source: Loan Sample. Dollar amounts are in thousands.

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

Lending to borrowers of different income levels and businesses of different sizes has reasonable penetration.

Lending to borrowers of different income levels is reasonable. The number of loans to borrowers with low or moderate income levels is less than the demographic data, but is reasonable considering the lending opportunities. As shown in Table 5 below, our sample found 14.28 percent of loan originations were to low and moderate families.

Table 5 – Borrower Distribution of Residential Real Estate Mortgages in American Federal's Assessment Area							
Low Income		Moderate Income		Middle Income		Upper Income	
% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
13.75	5.71	15.59	8.57	22.64	28.57	48.02	57.14

Source: AA data from 2000 U.S. Census. Loan data from loan sample.

Lending to businesses of different sizes is excellent. The number of loans to borrowers with businesses less than or equal to \$1 million in gross revenues exceeds the demographic data. When reviewing at the dollar amounts given to borrowers, it is skewed by one \$4 million loan because our loan sample by dollar volume in the AA was only \$13 million. See Table 5A.

Table 5A - Borrower Distribution of Loans to Businesses in American Federal's Assessment Area				
	Revenue of ≤\$1,000,000	Revenue of >\$1,000,000	Revenue Unknown	Total
% of AA Businesses	68.56	2.75	28.69	100%
% of Bank Loans in AA by #	80.00	20.00	0.00	100%
% of Bank Loans in AA by \$	53.16	46.84	0.00	100%

Source: AA data from 2011 Business Geodemographic Data. Loan data from loan sample.

Geographical Distribution

Lending to borrowers in different geographies of different income levels has excellent dispersion considering the number of low and moderate census tracts.

There are no low income census tracts and two moderate income census tracts in the AA. This results in only 3.12 percent of owner occupied housing and 5.29 percent of businesses located in low or moderate income level tracts. Table 6 and Table 6A below show the number of loans within the different income level census tracts.

Table 6 - Geographic Distribution of Residential Real Estate Loans in American Federal's Assessment Area							
Low Census Tract Income Level		Moderate Census Tract Income Level		Middle Census Tract Income Level		Upper Census Tract Income Level	
% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
0.00	0.00	3.12	0.00	40.86	33.29	56.03	65.71

Source: AA data from 200 U.S. Census Data. Loan data from loan sample.

Table 6A – Geographical Distribution of Nonresidential Mortgage Loans to Business in American Federal's Assessment Area							
Low Census Tract Income Level		Moderate Census Tract Income Level		Middle Census Tract Income Level		Upper Census Tract Income Level	
% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
0.00	0.00	5.29	15.00	35.97	30.00	58.74	55.00

Source: AA data from 2011 Business Geodemographic Data. Loan data from loan sample.

Responses to Complaints

American Federal has not had any CRA-related complaints within the evaluation period. Management has an appropriate process in place to ensure complaints are tracked and responded to timely.

COMMUNITY DEVELOPMENT TEST

American Federal has demonstrated excellent responsiveness to the community development needs in the assessment area.

Number and Amount of Community Development Loans

American Federal's level of responsiveness to community lending is excellent given the community's needs, opportunities available, and competition in the area.

Eight community development loans, totaling \$14 million, were originated within the evaluation period. All loans were made in the AA or the AA benefited directly from loan.

Loans originated in the AA:

- A \$700 thousand loan to expand a small business in Bozeman, MT (Gallatin County) that resulted in the creation of three jobs. This loan was unique because it utilized the Montana State Small Business Credit Initiative Program (SSBCI). The SSBCI program is intended to work with financial institutions to help address the financing needs of small businesses throughout the state of Montana.
- Four first mortgage loans totaling \$209 thousand primarily benefiting low to moderate income borrowers in Bozeman, MT (Gallatin County). These first mortgages were made in tandem with second mortgages offered by an affordable housing non-profit organization using the federal Neighborhood Stabilization program.
- Two Small Business Administration 504 loans totaling \$1.17 million. These loans allowed two small businesses in Bozeman, MT (Gallatin County) to expand their operations and retain jobs.

Loan originated outside the AA:

- A \$12 million loan to a non-profit organization to build a detention facility near Butte, MT (Silver Bow County). This project is significant given it was constructed on an Atlantic Richfield Company Superfund site and resulted in job retention and job creation. Specifically, 37 jobs were retained and 50 jobs were created. Although the facility itself is not located inside the institution's AA, it is adjacent and it benefited individuals and families of low and moderate income in the AA in a rural part of Montana. Furthermore, American Federal was innovative in their approach by using the Federal Home Loan Bank of Seattle's Economic Development Fund Program.

Number and Amount of Qualified Investments

American Federal's level of responsiveness to community investment needs is satisfactory. Investments and donations totaled \$138 thousand within the evaluation period.

A \$100 thousand equity equivalent investment was made to NeighborWorks® Montana (NWMT). This investment allowed NWMT to further its mission of creating affordable and sustainable homeownership opportunities to low and moderate income individuals and families throughout Montana.

An additional 12 donations, totaling \$40 thousand, were made to various organizations throughout the institution's AA, who target low and moderate income individuals in various forms. These organizations provide services such as assisted living to the homeless, shelter and services for domestic violence victims, affordable housing, and the provision of financial literacy training in an underserved geography.

Extent to Which the Bank Provides Community Development Services

American Federal's level of responsiveness to community development services is excellent. Employees frequently share their financial expertise with local, community organizations. Over the evaluation period employees have been in leadership positions of many organizations, frequently at the board level. These organizations provide economic development expertise for new and existing businesses, business that promote job retention and job creation, affordable housing, first-time homebuyer training, and financial literacy training. All volunteer efforts benefited low and moderate income individuals or families in the institutions designated AA.

Employees have shared their financial expertise to community organizations through fundraising, reviewing financial statements during board meetings, and providing banking knowledge. The projects and/or programs have highly contributed to the community's need for affordable housing, job retention and creation, homeless assistance, and health care for low and moderate income individuals or families.

Additionally, American Federal is the only financial institution in Helena, MT that participates in NWMT's Individual Development Accounts. These accounts help low and moderate individuals and families establish savings and budgeting habits in preparation for homeownership, while establishing a relationship with a lending institution.

Responsiveness to Community Development Needs

Overall, American Federal has demonstrated exceptional efforts and responsiveness to the community development needs in their AA. There are only two of 39 census tracts designated in low to moderate income areas in the institution's AA. There is one in Gallatin County and the other in Silver Bow County. Silver Bow County is also considered an underserved area.

Specific needs identified by means of community contacts include capital support to organizations that benefit lower income households, loans that benefit lower income individuals, and job retention in rural areas. American Federal has specifically responded to these needs through an equity equivalent investment and loans that benefit low and moderate households. Loans that benefited low and moderate households not only include loans given directly to borrowers with low or moderate income, but also those given to businesses who were able to retain and/or create jobs in the counties.

Additionally, American Federal has provided financial education to low and moderate income households in underserved areas and through organizations that specialize in helping low and moderate income individuals and families in their entire AA.

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.