



SMALL BANK

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

PUBLIC DISCLOSURE

September 07, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 18787**

**120 South Pine Street
Telluride, Colorado 81435**

**Comptroller of the Currency
Arizona & New Mexico
9633 South 48th Street Suite 265
Phoenix, Arizona 85044**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

First National Bank's (FNB) lending performance reflects a satisfactory response to community credit needs. This is based on the following information.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the number of loans are inside the bank's AA.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

DESCRIPTION OF INSTITUTION

FNB is a community bank in Telluride, Colorado with total assets of \$80 million as of December 31, 2002. As of that date, the bank operated out the main office in Telluride and two branches in Ouray and Ridgeway, Colorado. Telluride is in the easternmost census tract of San Miguel County, and both branches are in Ouray County. There are no deposit taking ATMs. The bank has not closed any branches or deposit taking ATMs during the evaluation period. A new branch opened in Montrose, Colorado during March of 2004, is not included in this evaluation period. FNB is a member of First Colorado Bankshares, Inc, a one-bank holding company that owns 100% of FNB. The bank is the holding company's primary asset.

The bank's primary lending focus using both number and dollar amount of loan originations in 2001-2002 is in commercial and consumer loans. In terms of dollars outstanding as of December 31, 2002, commercial and commercial real estate loans represented 53%, consumer loans represented 4%, and residential mortgage loans represented 22% of the bank's total loan portfolio. The bank's net loans to total assets ratio as of the same date was 70%. With a 34% deposit market share as of the June 30, 2003, FNB was the second-largest financial institution in the AA.

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. The bank was previously rated Satisfactory as of September 9, 1999.

DESCRIPTION OF ASSESSMENT AREA

As of December 31, 2002, and using 1990 census data, FNB had designated two census tracts (CTs) in southwestern Colorado as its AA. The bank's main office in Telluride is located in the San Miguel County CT, and the Ouray and Ridgeway branches are included in the Ouray County CT.

There are no low- or moderate-income (LMI) CTs in the AA. The San Miguel County CT, is an

upper-income CT, and Ouray County is all middle-income. The AA meets the legal requirements of the regulation and does not arbitrarily exclude LMI geographies.

The 2002 HUD updated statewide non-MSA median family income (MFI) was \$46,000. The percentage of households in the AA defined as low-income is 15%; moderate income is 15%; middle-income is 18%; and upper-income is 52%.

Competition for financial services is moderate. There are four other financial institutions in Telluride, and only one other financial institution in Ouray and Ridgeway. The June 30, 2003 FDIC Deposit Market Share report shows six financial institutions in the AA competed for \$230 million of insured deposits. FNB has the second-largest deposit market share, with 34% of the deposits in the market. The nature of the competition includes five other financial institutions which all have multiple offices outside the market. The bank with the largest deposit market share, 37% of the total deposits, has 22 other offices state-wide. Other competitors range from a smaller local bank to branches of regional and nationwide organizations. All have other markets from which they derive both loans and deposits.

The largest local employment sectors are local government, accommodation and food services, and general construction. The area is primarily devoted to tourism and real estate development. Unemployment figures for San Miguel County were benchmarked at 5.2% in 2002, up from a five year low of 3.5% in 2000. Unemployment for Ouray County was slightly better at 4.1%, but that is also up from a five year low of 2.7% in 2000.

During this examination we made one community contact to discuss economic conditions and credit needs. The contact said banks in the area were generally responsive to meeting the needs of the community. The need for affordable housing including rental housing, and small business loans were indicated as the primary credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination focuses on loan originations during 2001 and 2002. The December 31, 2002, cut-off date is used because of the impact of the Census 2000 changes that were effective in 2003. Loans made through 2002 are compared to 1990 census demographics, while loans made in 2003 and forward will need to be measured against demographic comparators from the 2000 census. Using only one census demographic period for this evaluation provides a more consistent analysis.

To determine the sample for this 2001-2002 period, we looked at both the dollar amount of loans and the number of loans originated. An evaluation of the originations showed FNB's primary products to be commercial and consumer loans, which is representative of the bank's current business strategy.

Loan Originations for Evaluation Period	Percentage of Dollar Amount of Loans	Percentage of Number of Loans
Business Loan Originations as a % of Total Originations	77%	45%
Consumer Loan Originations as a % of Total Originations	9%	43%
Total Primary Products as a % of Total Originations	86%	88%

Source: Loan Originations for evaluation period

After identifying the two primary products, we took a random sample of 20 business loans and 20 consumer loans to determine the ratio of loans inside the AA. To evaluate the borrower distribution of loans, loans outside the AA were discarded and additional loans were then selected to fill in the samples of 20 business and 20 consumer loans. Based on these samples, the bank's CRA performance in meeting the credit needs of the community is satisfactory, as supported below.

Loan-to-Deposit Ratio

The bank's average quarterly LTD ratio of 73% during the evaluation period is reasonable given the bank's size, financial condition, and AA credit needs. It meets the standard for satisfactory performance.

Uniform Bank Performance Reports from the third quarter 1999 through the fourth quarter 2002, were used to compare FNB with three of the other banks in the AA. The average quarterly LTD ratio of the other financial institutions ranges from 44% to 78%, with an average for all four banks of 65%. Loan-to-deposit ratios were not available for the other two banks in the market: one is a branch of a large nation-wide bank and no loan-to-deposit ratio was available for the branch, and the other is a mortgage office rather than a full service bank.

Lending in Assessment Area

A majority of both the number (88%) and dollar amount (86%) of loans are inside the AA. This meets the standard for satisfactory performance under this factor.

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

Given the demographics of the AA, the combined distribution of business and consumer loans originated reflects a reasonable penetration. Our analysis included 20 commercial and 20 consumer loans originated in 2001 and 2002 inside the AA.

Business Loans

The bank’s business lending activity to businesses of different sizes is excellent. This table measures the bank’s performance in lending to small businesses, defined as businesses with gross annual revenues of \$1 million or less. The percentage of loans to small businesses exceeds the business demographic by the percent of number and dollar amount of loans in the sample.

Borrower Distribution of Loans to Businesses in A portion of San Miguel and Ouray Counties		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	61%	3%
% of Bank Loans in AA by #	79%	21%
% of Bank Loans in AA by \$	72%	28%

Source: Loan sample; Dunn and Bradstreet data. * 36% of AA businesses did not report revenue data

Consumer Loans

The bank’s consumer lending activity to borrowers of different incomes is reasonable. This table focuses on the measure of the bank’s performance in lending to LMI borrowers. Low-income is defined as less than 50% of the HUD updated MFI for the area in which the borrower resides. Moderate-income is defined as between 50-80% of the HUD updated MFI.

Borrower Distribution of Consumer Loans in A portion of San Miguel and Ouray Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	15%	5%	15%	20%	18%	20%	52%	50%

Source: loan sample; U.S. Census data.

For low-income borrowers, the sample of the bank’s consumer loans does not meet the area demographic in the number of loans extended. One partially mitigating factor is that 8% of the households in the bank’s AA are classified as having income below poverty level. This percent is not high compared to some other locations, but generally households below the poverty level are not able to qualify for even small loans. For moderate-income borrowers, the bank exceeds the moderate-income demographic in the number of loans extended.

The consumer loan sample also contains 5% of the number of loans where the bank did not collect any income data. This loan is secured by cash deposits at the bank. Generally, borrowers who have been able to accumulate such cash reserves are middle- and upper-income.

Geographic Distribution of Loans

An analysis of the geographic distribution of credit within the bank's AA by income level would not be meaningful because the AA only consists of middle- and upper-income census tracts.

Responses to Complaints

FNB has not received any CRA related complaints since our last examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.