



## **PUBLIC DISCLOSURE**

September 23, 2013

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank, Cortez  
Charter Number 14833

2258 East Main Street  
Cortez, CO 81321

Office of the Comptroller of the Currency

Phoenix Field Office  
9633 South 48th Street, Suite 265  
Phoenix, AZ 85044-8629

**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.**

The lending performance of First National Bank, Cortez (FNBC) reflects a satisfactory response to community credit needs. This conclusion is based on the following results from our review:

- The loan-to-deposit (LTD) ratio is reasonable given the context of the assessment area (AA) and the bank's size, financial condition, and operations.
- FNBC makes a substantial majority of its loans to borrowers inside the AA.
- The borrower distribution of commercial and residential real estate loans originated in the AA reflects reasonable penetration among businesses of different sizes and individuals of different income levels.
- The geographic distribution of commercial and residential real estate loans within the AA reflects excellent dispersion.

## **SCOPE OF EXAMINATION**

This examination consisted of a full-scope review of the bank's single AA. The lending test covered January 1, 2011, through August 23, 2013, referred to in this report as the evaluation period. We identified commercial and residential real estate loans as the bank's primary products based on the number and dollar amount of loans originated in the evaluation period. There were no affiliate loans to review.

<b>Loan Originations for Evaluation Period</b>	<b>% of Dollar Amount of Loans</b>	<b>% of Number of Loans</b>
Commercial Loan Originations as a % of Total Originations	33	16
Residential RE Loan Originations as a % of Total Originations	55	23

*Source: Loan originations for the evaluation period.*

We sampled 20 loans from each of the bank's primary loan products. The data from the original commercial and residential real estate samples was used to calculate the inside/outside AA ratio. To perform other lending tests, we eliminated loans outside the AA from the original sample and added enough additional loans to provide a sample of 20 commercial and 20 residential real estate loans inside the AA. The sample is representative of the bank's business strategy since the last examination.

Due to the U.S. census data changing in the evaluation period, we compared 2000 census data with loans originated from January 1, 2011, to December 31, 2011; and 2010 census data with loans originated from January 1, 2012, to August 23, 2013.

## **DESCRIPTION OF INSTITUTION**

FNBC is a community bank headquartered in Cortez, Colorado, which is a non-metropolitan area in the southwestern part of the state. As of June 30, 2013, FNBC had \$95.1 million in total assets and net loans of \$31.9 million, or 33 percent of total assets. The bank operates one main office and one full-service ATM. In April 2011, FNBC moved the main office from the downtown corridor of Cortez to the current location. Both the current and prior locations are located within the same census tract (CT). In July 2008, the bank closed one branch and ATM in Mancos, Colorado, which was located in a middle-income CT. FNBC continues to provide services to residents in that community. FNBC does not operate under a holding company structure and there are no affiliates.

The bank offers a variety of deposit and loan products to individuals and small businesses. The primary lending focus is commercial loans to small businesses and residential real estate loans. A portion of residential real estate loans are subsequently sold on the secondary market. FNBC also originates a significant number of low-dollar consumer loans.

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 rated Satisfactory at the July 7, 2008 Community Reinvestment Act (CRA) examination. Additional details about the bank can be found in its Public File, which is maintained at the main office.

## **DESCRIPTION OF ASSESSMENT AREA**

FNBC has designated Dolores County and seven CTs in Montezuma County as its AA. This delineation includes the city of Cortez and towns of Mancos, Dolores, and Dove Creek. According to 2000 census data, there was one low-, one moderate-, six middle-, and no upper-income CTs in the AA. As a result of the 2010 census, the low-income CT changed to moderate-income and the boundary of one CT was adjusted to align with the southeastern border of Montezuma County. Prior to the adjustment, a small and remote portion of a CT located predominately in neighboring La Plata County extended into Montezuma County.

The only CT in Dolores County has been designated as an underserved nonmetropolitan middle-income CT since 2008. The underserved designation relates to population size, density, and dispersion, and applies to remote rural areas. In 2010 and 2011, this CT was also designated a distressed nonmetropolitan middle-income CT due to unemployment levels. The low-income CT that changed to moderate-income is part of the Ute Mountain Ute Tribe Reservation, while the other moderate-income CT includes a portion of Cortez. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The AA's economy is based on the agriculture, government service, tourism, and oil and gas industries. Primary employers include accommodation and food service, health care and social assistance, and retail establishments. Although economic conditions remain depressed in comparison to those prior to the 2007-2009 recession, there have been modest improvements over the recent past.

Demographic Information for the FNBC AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	8	0	25	75	0
Population by Geography	27,599	N/A	20	80	N/A
Owner-Occupied Housing by Geography	8,653	N/A	13	87	N/A
Businesses by Geography	3,174	N/A	15	85	N/A
Farms by Geography	231	N/A	5	95	N/A
Family Distribution by Income Level	8,291	24	21	19	36
Household Distribution by Income Level	11,826	29	17	19	35
Census Median Family Income (MFI)		\$57,817	Median Housing Value		\$192,494
Housing and Urban Development - Adjusted MFI: 2011		\$60,200	Families Below the Poverty Level		14%
FFIEC Estimated MFI: 2012		\$61,000	Unemployment Rate		6%
FFIEC Estimated MFI: 2013		\$59,600			

Sources: 2010 U.S. Census Data, Federal Financial Institutions Examination Council (FFIEC).

Competition for financial services is strong. The June 30, 2012 FDIC Deposit Market Share Report reveals that eight financial institutions, with 13 local offices, compete for over \$502 million of insured deposits. Competition includes three local institutions, two institutions that operate locally and, in the surrounding areas of southwestern Colorado or northwestern New Mexico, one statewide institution and one regional institution. The three competitors with a local presence only account for over 49 percent of the deposit market share. At 16 percent of area deposits, FNBC has the third largest market share of the eight competing institutions.

There are three similarly situated banks to FNBC in the marketplace. The similarities were identified in terms of size, geographic presence, and lines of business. These institutions each operate two offices located in the AA. We used data from the three similarly situated banks to evaluate FNBC's LTD ratio.

During this examination, we contacted one community organization representative to discuss economic conditions and credit needs of the AA. The representative reported recent, but slight, improvements in the economy, with reasonable demand for residential real estate. The demand for commercial properties has improved since the recent recession. The representative noted a healthy level of competition among financial institutions in the area and that these institutions meet the credit needs of the community.

Maps and additional information about the bank's AA can be found in the Public File.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's LTD ratio is reasonable given the context of the AA and the bank's size, financial condition, and operations. As of June 30, 2013, the bank's average quarterly LTD ratio for the last 21 quarters was 41 percent, with a low of 31 percent and a high of 52 percent. While FNBC's LTD ratio is lower than those reported by similarly situated banks, there are two mitigating factors. FNBC originates and sells residential real estate loans into the secondary market. From 2009 through August 2013, the bank sold approximately \$23 million in loans on the secondary market. Therefore, the LTD ratio is not fully reflective of the lending activity of FNBC. Additionally, only FNBC and one similarly situated institution reported positive net loan growth since June 30, 2008. This is partly because of a low volume of qualified loan demand in the AA. For both of these institutions, an influx of deposits outpaced the growth in loans.

Bank	Average Quarterly Loan-to-Deposit Ratio
<b>FNBC</b>	<b>41%</b>
Bank A	64%
Bank B	68%
Bank C	78%

Source: Uniform Bank Performance Report.

### Lending in Assessment Area

FNBC makes a substantial majority of its loans to borrowers inside the AA. We calculated the bank's inside/outside ratio based on our original sample of 20 commercial and 20 residential real estate loans. After combining the figures for these two categories, we found that FNBC made 90 percent of the number and 87 percent of the dollar of loans sampled to borrowers within the AA. These results exceed the standard for satisfactory performance.

Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	16	80	4	20	20	2,231	74	769	26	3,000
Residential RE	20	100	0	0	20	2,911	100	0	0	2,911
<b>Total</b>	<b>36</b>	<b>90</b>	<b>4</b>	<b>10</b>	<b>40</b>	<b>5,142</b>	<b>87</b>	<b>769</b>	<b>13</b>	<b>5,911</b>

Source: Loan originations for the evaluation period.

In order to perform the remaining analyses, we replaced the four commercial loans located outside the AA with four randomly selected commercial loans located inside the AA.

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

The borrower distribution of commercial and residential real estate loans originated in the AA reflects reasonable penetration among businesses of different sizes and individuals of different income levels.

### *Commercial Loans*

The distribution of commercial loans reflects reasonable penetration among businesses of different sizes.

Table 1A compares 2000 census data with loans in our sample that FNBC originated or purchased in 2011. According to our 2011 sample, FNBC made 67 percent of its commercial loans to businesses with revenues of \$1 million or less. This level compares closely to census data, which shows that 70 percent of businesses reported revenues of \$1 million or less. As a result, performance meets the standard. Although census data reported no revenue information for 28 percent of AA businesses, our sample of 2011 loans did not contain a loan to a business with unknown revenues. For the commercial loan analysis, we relied more on the number of loans made rather than the dollar amount lent, as smaller businesses often require less funding per transaction compared to larger organizations.

<b>Table 1A - Borrower Distribution of Loans to Businesses in the AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	% Total
% of AA Businesses	70	2	28	100
% of Bank Loans in AA by #	67	33	0	100
% of Bank Loans in AA by \$	49	51	0	100

Sources: 2000 U.S. Census Data, 2011 Commercial Loans Sampled

Table 1B compares 2010 census data with loans in our sample that FNBC originated or purchased from January 1, 2012, through August 23, 2013. As in Table 1A above, the percentage of loans made to businesses with revenues of \$1 million or less compares closely to census data. Performance meets the standard. For this sample, 22 percent of the loans that we reviewed were made to borrowers with unknown revenues. In each of these instances, the origination amount was low, which suggests that these borrowers may be smaller size businesses. Census data also reported 22 percent of businesses with unknown or unavailable revenues. One loan to a business with revenues greater than \$1 million significantly skewed the dollar figures in Table 1B.

<b>Table 1B - Borrower Distribution of Loans to Businesses in the AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	% Total
% of AA Businesses	75	3	22	100
% of Bank Loans in AA by #	71	7	22	100
% of Bank Loans in AA by \$	30	67	3	100

Sources: 2010 U.S. Census Data, 2012-2013 Commercial Loans Sampled

*Residential Real Estate Loans*

The distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels given the performance context.

Table 1C compares 2000 census data with loans in our sample that FNBC originated or purchased in 2011. The percentage of loans to low-income borrowers is significantly lower than the percentage of AA families designated as low-income. As a result, performance does not meet the standard. This performance is partially due to the 13 percent of AA families living below the poverty level. It is harder for these families to qualify for residential real estate loans, especially when the median housing value is \$104,892. Additionally, 11 percent of low-income families reside in the low-income CT, which is part of the Ute Mountain Ute Tribe Reservation. According to management of FNBC, there are complications associated with taking possession of collateral located in the Ute Mountain Ute Tribe Reservation, if needed. Therefore, it is difficult for FNBC to make properly secured loans to individuals or businesses in this geography. The percentage of loans to moderate-income borrowers is significantly lower than the percentage of AA families designated as moderate-income. Performance for lending to moderate-income borrowers does not meet the standard.

Table 1C - Borrower Distribution of Residential RE Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential RE	25	12.5	23	12.5	23	62.5	29	12.5

Sources: 2000 U.S. Census Data, 2011 Residential RE Loans Sampled

Table 1D compares 2010 census data with loans in our sample that FNBC originated or purchased from January 1, 2012, through August 23, 2013. Although low-income families accounted for 24 percent of all AA families, there were no loans made to low-income borrowers in this sample. Performance reflects poor penetration and does not meet the standard. This performance is due to an elevated percentage of families living below the poverty line and an increased median housing value. Data from the 2010 census revealed that 14 percent of AA families were living below the poverty level and the median housing value increased to \$192,494. Lending to moderate-income borrowers exceeds the standard.

Table 1D - Borrower Distribution of Residential RE Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential RE	24	0	21	25	19	25	36	50

Sources: 2010 U.S. Census Data, 2012-2013 Residential RE Loans Sampled

## Geographic Distribution of Loans

The geographic distribution of commercial and residential real estate loans within the AA reflects excellent dispersion. Our loan sample contained loans from each CT, with the exception of the CT that is part of the Ute Mountain Ute Tribe Reservation.

### Commercial Loans

The geographic distribution of commercial loans in the AA is excellent.

Table 2A compares 2000 census data with loans in our sample that FNBC originated or purchased in 2011. FNBC has not originated any commercial loans in the low-income CT of the AA and does not meet the standard. The opportunities to lend to businesses in the low-income CT were limited due to the small number of businesses in that geography and the difficulties in lending to businesses in the Ute Mountain Ute Tribe Reservation. The percentage of loans that FNBC made to businesses in the moderate-income CT exceeds the percentage of AA businesses located in that CT. Therefore, performance exceeds the standard.

Table 2A - Geographic Distribution of Loans to Businesses in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Commercial	1	0	13	17	86	83	N/A	0

Sources: 2000 U.S. Census Data, 2011 Commercial Loans Sampled

Table 2B compares 2010 census data with loans in our sample that FNBC originated or purchased from January 1, 2012, through August 23, 2013. The performance of lending to businesses in moderate-income CTs exceeds the standard. There were no low-income CTs based on 2010 census data.

Table 2B - Geographic Distribution of Loans to Businesses in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Commercial	N/A	0	15	29	85	71	N/A	0

Sources: 2010 U.S. Census Data, 2012-2013 Commercial Loans Sampled

### Residential Real Estate Loans

The geographic distribution of residential real estate loans in the AA is excellent.

Table 2C compares 2000 census data with loans in our sample that FNBC originated or purchased in 2011. FNBC has not originated any residential real estate loans in the low-income CT of the AA and does not meet the standard. The opportunities to lend to borrowers in the low-income CT were limited due to the small number of owner-occupied housing units in that geography and the difficulties in lending to borrowers in



the Ute Mountain Ute Tribe Reservation. According to our 2011 sample, FNBC made 12.5 percent of its residential real estate loans to borrowers located in the moderate-income CT. As a result, the performance exceeds the standard. FNBC made another 87.5 percent of the loans in this sample to an underserved and distressed nonmetropolitan middle-income CT.

Table 2C - Geographic Distribution of Residential RE Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Residential RE	4	0	10	12.5	86	87.5	N/A	0

Sources: 2000 U.S. Census Data, 2011 Residential RE Loans Sampled

Table 2D compares 2010 census data with loans in our sample that FNBC originated or purchased from January 1, 2012, through August 23, 2013. The performance of lending to borrowers in moderate-income CTs meets the standard. FNBC made 92 percent of the loans in this sample to an underserved nonmetropolitan middle-income CT. There were no low-income CTs based on 2010 census data.

Table 2D - Geographic Distribution of Residential RE Loans in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Residential RE	N/A	0	13	8	87	92	N/A	0

Sources: 2010 U.S. Census Data, 2012-2013 Residential RE Loans Sampled

## Responses to Complaints

No complaints have been received by the bank or OCC relating to FNBC’s CRA performance during this evaluation period.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.