

PUBLIC DISCLOSURE

September 9, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 18787**

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

**Comptroller of the Currency
50 Fremont Street, Suite 3900
San Francisco, California 94105**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 9, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

A satisfactory rating is appropriate based on the bank’s demonstrated ability to meet the credit needs of the community, including low- and moderate-income individuals and small businesses. Specifically:

- < A substantial majority of the bank’s loans and other lending related activities are in the assessment area.
- < The bank’s loan-to-deposit ratio is reasonable given the competition and assessment area credit needs.
- < The distribution of borrowers reflects good penetration among individuals of different income levels and businesses of different sizes.

First National Bank is committed to serving the community in which it operates and demonstrates satisfactory lending performance.

DESCRIPTION OF INSTITUTION:

First National Bank (FNB), located in the eastern one-third of San Miguel County and Ouray County in Colorado, is a community bank with total assets of \$49 million. It is controlled by First Colorado Bankshares, Inc., a one-bank holding company with total assets of \$50 million, located in Telluride, Colorado. There are no subsidiaries or affiliates.

FNB's primary business focus is residential real estate lending. Residential real estate represents 41% of total loans by dollar. Other loans secured by real estate represent 39% of total loans by dollar and include loans to finance commercial real estate and construction projects. The remainder of the portfolio consists of commercial loans, lease loans, and loans to individuals, representing 10%, 5%, and 5%, respectively. As of June 30, 1999, net loans represented 66% of total assets.

The main office is located in Telluride, Colorado in San Miguel County. Full service branches are located in Ouray and Ridgway, Colorado, both in Ouray County. The bank operates one deposit taking ATM at each location. Additionally, there is one cash dispensing ATM in Telluride and one located at a convenience store in Ridgway. The bank does not operate any drive-up facilities.

There are no financial or legal impediments to the bank's ability to meet the credit needs of the assessment area.

The evaluation period for this Performance Evaluation is from August 1, 1996, through September 8, 1999. The last CRA examination was performed on July 31, 1996. The bank received a "Satisfactory" rating.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA:

FNB has defined its assessment area (AA) as the eastern third of San Miguel County and all of Ouray County. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The exclusion of the western two-thirds of San Miguel County from the bank's AA is appropriate as the location of the nearest office in Telluride, Colorado makes servicing this geography unfeasible.

The AA contains two block numbering areas (BNA) for census purposes. BNA income designations are based on the 1990 non-MSA census median family income of \$28,258. The AA located in San Miguel County, is an upper-income BNA and Ouray County is a middle-income BNA.

1990 U.S. Census data estimates that 4,716 people live within the AA. The major towns are Telluride, Sawpit, and Ophir in San Miguel County and Ouray and Ridgway in Ouray County. The income demographics of the population are as follows:

Families in the Assessment Area by Income Level		
Income Classification and % of Median Income*	Number	Percent
Low Income (< 50%)	138	12
Moderate Income (51% - 80%)	199	17
Middle Income (81% - 120%)	272	23
Upper Income (> 120%)	551	48
Total	1,160	100

* Note: Income Designation of the borrower is based on the 1990 non-MSA's US Census Median Family Income of \$28,258.

The 1999 Non-MSA's Updated Median Family Income is \$40,400.

The AA economy is highly dependant on the ski industry in the winter months and tourism for the remainder of the year. In 1990, the service industry comprised 38% of all businesses within the AA. Within the AA in San Miguel County, the highest percentage of jobs (29%) is in the hotel and service industries followed closely by retail (26%).

Telluride is known worldwide for its ski conditions, drawing in excess of 375,000 skier visits (one person skiing one day) each year. The largest employers are Telluride Ski & Golf Company and Peaks Resort & Spa. Combined, these companies employ approximately 1,100 people at peak season and 400 in the off-season.

Telluride drives the economy for the surrounding communities of Ouray and Ridgway. These communities located in Ouray County are experiencing substantial growth as Telluride bedroom communities since many people new to the area cannot afford the Telluride housing market. Demographics indicate many professionals are migrating from larger metropolitan cities to Ouray County and commuting to Montrose, north of Ouray County, for employment.

The banking environment within the AA is highly competitive. FNB competes with four commercial banks, one loan processing office, and three mortgage companies.

During our examination, we interviewed a Town Council member for the towns of Telluride and Mountain Village. Based on this discussion, the primary credit need in eastern San Miguel County, is support for small businesses. Our contact indicated that FNB is actively involved in meeting this need through lending and community involvement and provides access to a variety of banking services. Our contact did not identify any segments of the community that are under served.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The average loan-to-deposit ratio for the previous twelve quarters ending June 30, 1999, is 70%. This exceeds the loan-to-deposit ratios for the two similarly situated banks whose twelve-quarter averages are 53% and 68%. Similarly situated banks are those banks comparable in size, delineated communities, and loan products.

Lending in Assessment Area

First National Bank originates a substantial majority of its loans within its assessment area. We sampled twenty commercial real estate and twenty residential real estate loans originated between August 1, 1996, and June 30, 1999. Of the commercial real estate loans, 90% by number and 95% by dollar volume were originated within the AA. Of the residential real estate loans, 90% by number and 97% by dollar volume were originated within the AA. The following chart summarizes our combined findings:

Loan Originations	Number of Loans Sampled		Dollar Volume of Loans Sampled	
	Number	Percentage	Dollar	Percentage
In Assessment Area	36	90	8,712,507	95
Out of Assessment Area	4	10	415,518	5
Total	40	100	9,128,025	100

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

First National Bank's overall lending pattern reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

Commercial Loans:

The bank is active in meeting the credit needs of small businesses within the community. By definition, small businesses are those with annual revenues of less than \$1 million. Our loan sample, described previously, included loans originated to finance commercial real estate, excluding rental properties. As shown in the table, 90% by number and 85% by dollar volume were made to small businesses. Further, 55% by number and 36% by dollar volume were made to businesses with annual revenues of less than \$250,000.

Distribution of Commercial Real Estate Loans by Annual Revenue				
Annual Revenue	Number of Loans in Sample	Percent of Loans in Sample	Dollar Amount of Loans in Sample	Percent of Dollar Volume Sampled
Revenues Less than \$250M	11	55	2,059,000	36
Revenues \$250M - \$500M	6	30	1,892,954	33
Revenues \$500M - \$1,000M	1	5	930,000	16
Revenues more than \$1,000M	2	10	842,000	15
Total	20	100	5,723,954	100

This distribution closely matches the AA demographics. The 1990 US Census data indicates 93% of the businesses within the AA have revenues of less than \$1 million.

Residential Real Estate Loans:

The bank's efforts in meeting the credit needs of residential real estate borrowers are satisfactory. Our sample, described previously, consisted of mortgage loans originated to finance owner-occupied real estate. The following table shows a breakdown of residential real estate loan originations by income level as compared to the population:

Distribution of Mortgage Loans to Borrowers of Different Income Levels					
Income Designation of the Borrower*	Percent of Families in the Assessment Area	Number of Loans Sampled	Percent of Loans Sampled	Dollar Amount of Loans Sampled	Percent of Dollar Volume of Loans Sampled
Low-Income	12	2	10	110,274	3
Moderate-Income	17	1	5	37,007	1
Middle-Income	23	4	20	291,624	9
Upper-Income	48	13	65	2,965,166	87
Total	100	20	100	3,404,071	100

*Note: Income Designation of the borrower is based on the 1999 MSA US Census Updated Median Family Income of \$40,400.

The bank's opportunities to originate owner-occupied real estate loans to low- and moderate-income borrowers are limited by the availability of affordable housing and the high price of real-estate. Of the total housing units, only 33% are owner-occupied and 23% are rental properties. The remaining 44% are primarily lower-priced housing units purchased as investment properties or to be used as vacation residences. Due to the transient and seasonal nature of the population there is a lower demand for owner occupied housing. The large volume of skiers and tourists creates a high demand for seasonal and short term lodging.

The median cost of housing within the AA in 1990 was \$155,737. Given the 1999 Non-MSA updated median family income of \$40,400, it is cost-prohibitive for many low- to moderate-income borrowers to purchase a home within the AA. Additionally, the price of housing has increased substantially since 1990, further inhibiting the ability of low- to moderate-income individuals to purchase single family residences.

FNB is actively looking for ways to provide funding for low- and moderate-income individuals. The bank has made one loan under the November 9, 1998, Routt and San Miguel Counties Mortgage Credit Certificate Program and received approval in February 1999 to participate in the Federal Home Loan Bank's Affordable Housing Program. Both programs were developed to assist low- and moderate-income individuals obtain affordable housing.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans within the bank's assessment area was not meaningful. The AA consists of two BNAs which are too few to analyze. The AA contains no low- or moderate- income BNAs.

Responses to Complaints

The bank has not received any written complaints regarding its CRA activities since our July 31, 1996, Performance Evaluation.

Record of Compliance with Antidiscrimination Laws

The bank is in substantial compliance with all fair lending laws and regulations. Our concurrent fair lending examination did not find any evidence of discrimination or practices intended to discourage low- and moderate-income applicants from applying for credit.