



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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**PUBLIC DISCLOSURE**

**June 30, 2003**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**First National Bank, Cortez  
Charter Number 14833**

**140 West Main  
Cortez, CO 81321**

**Comptroller of the Currency  
ADC-Arizona & New Mexico  
9633 South 48th Street Suite 265  
Phoenix, AZ 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.**

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## **INSTITUTION'S CRA RATING**

**This institution is rated “Satisfactory.”**

First National Bank, Cortez has a satisfactory record of meeting community credit needs. This is based on the following:

- The average loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs.
- The majority of loan originations are in the bank’s assessment area.
- First National Bank, Cortez has reasonable loan penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion of loans throughout the assessment area.

## **DESCRIPTION OF INSTITUTION**

The First National Bank, Cortez opened on May 29, 1958. The bank is a \$70 million dollar bank located in Cortez, Colorado, which is a non-metropolitan area in the southwest corner of the state. In addition to the main office in Cortez, the bank has one branch in Mancos, Colorado, about seventeen miles east of Cortez. The Mancos office opened in April 1997. As of December 31, 2002, the bank reported net loans of \$23 million and total deposits of \$57 million. First National Bank, Cortez is publicly owned with no affiliates.

The bank offers a wide range of deposit and loan services to individuals and small businesses. The bank is primarily a real estate lender. Primary products are residential and commercial real estate loans. The bank owns and operates two full-service automated teller machines (ATMs), one at the main office and one at the branch. The ATMs accept several network and reciprocal ATM and major credit cards.

The last CRA examination was performed as of June 30, 1997. The bank received a “Satisfactory” performance rating. There are no legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its assessment area.

## **DESCRIPTION OF ASSESSMENT AREA:**

Cortez, Colorado, the county seat of Montezuma County, is located in the southwest corner of Colorado. First National Bank, Cortez has designated its assessment area as all of Dolores and Montezuma counties in Colorado and the adjacent communities of Aneth and Montezuma Creek located in southeastern Utah. The entire area is a non-metropolitan area. The population of the assessment area was 23,671 per 1990 census data. The assessment area is comprised of eight

contiguous block-numbering areas (BNA's). Of these, one is low income, one is moderate income, and the remaining six are middle income. Adjacent to Cortez, in Montezuma County, is the Ute Mountain Reservation, which is the moderate income BNA. The BNA located in Utah is entirely on the Navajo Reservation. It is the low income BNA.

The economy is about equally divided between tourism, agriculture, and the provision of governmental services. Primary employers are federal/city/county governments, construction and energy companies, and retail/services industries. Government employment has declined somewhat, but is offset by an increasing demand in the retail/service sector.

The banking environment within First National Bank, Cortez's assessment area is highly competitive. Competition in the assessment area includes six independent community banks, two branches of large banks, a Federal Land bank, and numerous mortgage companies. First National Bank, Cortez is the third largest independent financial institution in the area.

Affordable housing continues to be the most pressing need in the area.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. As of December 31, 2002, the LTD ratio was 41.23 percent. Over the past 21 quarters the average ratio was 45.29 percent. This is slightly below the average LTD ratios of banks in the area having similar characteristics. The average LTD ratio for these banks range from 59.87 percent to 63.83 percent.

### **Lending in Assessment Area**

A majority of loans and other lending-related activities are in the bank's assessment area. To assess performance, we reviewed a sample of 20 commercial loans and 20 refinanced residential real estate loans in 2001 and 2002. Our analysis determined that 90 percent of the number and 86 percent of the dollar were made within the assessment area.

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

The bank's lending performance reflects reasonable distribution among borrowers of different income levels and businesses of different revenue size. Loan originations are well distributed among low-, moderate-, middle-, and upper-income level borrowers and generally representative of the income demographics of the assessment area (AA).

### Commercial Loans

The distribution of business loans reflects, given the demographics of the assessment area, excellent penetration of businesses of different sizes. Businesses with annual gross revenues of less than or equal to \$1 million are designated as “small businesses”. The assessment area demographic data shows that “small businesses” total 72 percent of assessment area businesses. We sampled 20 commercial loans, totaling \$1.318 million, originated in 2001 and 2002. We found that 90 percent by number and 99 percent by dollar were to small businesses as shown in the table below.

<b>BORROWER DISTRIBUTION OF LOANS TO SMALL BUSINESSES</b>			
Business Revenues	≤\$1,000,000	>\$1,000,000	Not Reported
AA Businesses	72%	4%	24%
% of Bank Loans in the AA by #	90%	10%	0%
% of Bank Loans in the AA by \$	99%	1%	0%

Source: loan sample, Dunn & Bradstreet

### Refinanced Residential Real Estate Loans

The distribution of residential real estate refinance loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income). We sampled 20 refinanced residential real estate mortgage loans originated in 2001 and 2002. As shown in the table below, 45 percent by number and 21 percent by dollar were made to low- and moderate-income borrowers. This is reasonable given that 46 percent of the households in the assessment area are low- and moderate-income families. The dollar value is lower in the low- and moderate categories due to customers within these categories qualifying for smaller loan amounts.

<b>Borrower Distribution of Refinanced Residential Real Estate Borrowers</b>					
Borrower Income Level	Loan Distribution by Dollar Amount of Loans		Loan Distribution by Number of Loans		% of AA Households That are Families by Income Level Category
	Dollar Amount	Percent	Number	Percent	
Low	\$ 109,000	7 %	5	25 %	29 %
Moderate	204,000	14	4	20	17
Middle	302,000	21	2	10	21
Upper	851,000	58	9	45	33
Total	\$ 1,466,197	100 %	20	100 %	100 %

Source: loan sample, U.S. Census Bureau

## Geographic Distribution of Loans

First National Bank, Cortez's geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Our analysis included 20 commercial loans and 20 refinanced residential real estate loans originated in 2001 and 2002.

### *Commercial Loans*

The table below shows that 3 percent of businesses in the assessment area are located in the low- and moderate-income areas. The bank's lending to businesses in these two categories is higher in number and comparable in dollar to assessment area demographics.

Business Loans								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Business	1%		2%		97%		0%	
	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
Totals	5	1	5	2	90	97	0.00	0.00

Source: loan sample, Dunn & Bradstreet

### *Refinanced Residential Real Estate loans*

The table below shows that the bank's lending activity is below the demographics of the assessment area. As discussed in the **Description of Assessment Area** section in this evaluation, there are eight BNA's: one low, one moderate and six middle-income. The low income BNA is entirely on the Navajo Indian Reservation. The moderate income BNA consists primarily of the Ute Mountain Indian Reservation. Lending opportunities are limited as these areas are sparsely populated. Owner occupied housing units in the low-and moderate-income tracts make up approximately 16 percent of the total owner occupied housing units in the assessment area compared to 84 percent in middle-income tracts. Difficulties associated with taking real estate as collateral on Indian Reservation land further limits the bank's lending opportunities.

REFINANCED RESIDENTIAL REAL ESTATE LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied Housing	12%		4%		84%		0%	
	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
Totals	0.00	0.00	0.00	0.00	100	100	0.00	0.00

Source: loan sample, U.S. Census Bureau

## **Responses to Complaints**

First National Bank, Cortez has not received any CRA-related complaints during this evaluation period.

## **Fair Lending Review**

An analysis of the most recent public comments was performed according to the OCC's risk based fair lending approach. Based on analysis of available information, the OCC decided a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.