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**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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**PUBLIC DISCLOSURE**

**February 18, 2005**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Southern Colorado National Bank  
Charter Number 24253**

**3595 Spaulding Avenue  
Pueblo, CO 81008**

**Comptroller of the Currency  
Denver Field Office  
1225 17<sup>th</sup> Street, Suite 450  
Denver, CO 80202**

**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.**

A satisfactory rating is appropriate given the bank's ability to meet the credit needs of the community including loans to low- and moderate-income individuals and small businesses. Specifically:

- The bank's pattern of lending to small businesses is strong.
- The bank's loan-to-deposit ratio is good given area competition and credit needs of the community.
- The majority of loans by number and dollar volume are originated within the bank's assessment area.
- Although lending to low- and moderate-income individuals is below demographics, it remains reasonable.

Southern Colorado National Bank is committed to serving the credit needs of the community in which it operates and overall demonstrates a satisfactory level of lending performance.

## **DESCRIPTION OF INSTITUTION**

Southern Colorado National Bank (SCNB) is a \$31 million institution in Pueblo, Colorado. The bank is owned by Southern Colorado National Bancorp, Inc., a locally owned single bank holding company. The bank accounts for substantially all of the holding company assets.

The bank operates two full service facilities. The main bank office is located on the northwest side of Pueblo. A full service branch was opened in Pueblo West on January 3, 2005. Both offices operate a drive-up facility.

SCNB's primary loan products by dollar volume are commercial real estate (25%) and loans secured by 1-4 family residential real estate (22%). Our rating of the bank's CRA performance is based on the analysis of these two products. Other loans products offered by the bank are consumer purpose loans (25%) and real estate construction and development loans (12%). Net loans represent 78% of the bank's total assets. The bank faces strong competition from numerous community and large banks operating in the Pueblo market. There are no legal or financial impediments to the bank's ability to meet the credit needs of the assessment area.

We made one community contact with this examination. We spoke with a representative of Small Business Development Center. This individual stated the primary credit needs of the community include small business and affordable housing financing. In addition, this individual indicated that SCNB is doing a good job of meeting the primary credit needs of the Pueblo community.

This is SCNB's first CRA examination since being chartered as a de novo bank in March 2002 in a highly competitive and mature market.

*Refer to the bank's CRA Public File for more information.*

## **DESCRIPTION OF PUEBLO MSA**

Management has designated the Pueblo MSA as its assessment area. 2000 census data shows the MSA is comprised of 51 census tracts of which 11 are designated as upper-income (22%), 19 as middle-income (37%), and 19 as moderate-income (37%). Two census tracts (4%) do not have income designations. There are no low-income census tracts. The Department of Housing and Urban Development (HUD) 2004 updated Pueblo MSA median family income is \$41,450. Based on 2000 census data there are 37,624 families residing within the AA of which 38% are deemed as low- or moderate-income. Income designations are determined based on annual income as a percentage of the AA median family income.

Major employers in Pueblo County include educational employers (School Districts 60 and 70, Pueblo Community College, and Colorado State University-Pueblo), medical and mental health centers (Parkview and St. Mary Corwin Hospitals and Colorado Institute of Mental Health), and Pueblo City and County governments. General economic conditions are stable but lagging behind the national economy. Unemployment has remained steady between 5% and 7% over the past five years.

The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

*Refer to the bank's CRA Public File for more information.*

## **CONCLUSION ABOUT PERFORMANCE CRITERIA**

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

The bank's loan-to-deposit ratio is good given area competition and credit needs of the community.

The bank's average quarterly loan-to-deposit ratio since inception is 83%. There is only one similarly situated bank within the assessment area (AA). Loan-to-deposit ratio for the same time period is 66%. Similarly situated banks are those banks of similar business lines operating within the same geography.

### **Lending in the Assessment Area**

The majority of loans by number and dollar volume are originated within the bank's AA.

We sampled 20 loans secured by 1-4 family residential real estate and 20 commercial real estate secured loans. Of the 40 loans sampled, 77% by dollar volume and 83% by number were originated within the AA.

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

The bank's pattern of lending to borrowers of different income and businesses of different sizes is satisfactory.

#### Residential Real Estate Lending

Although the bank's pattern of lending to low- and moderate-income individuals does not substantially reflect area demographics, it remains reasonable.

The distribution of residential real estate secured loans to borrowers of different income levels is reasonable given the bank's business focus and product type sampled. As summarized in the table below, of the 20 loans secured by 1-4 family residential real estate sampled, 2 loans (10%) were originated to low-income families and no loans were originated to moderate-income families. Area demographics indicate low- and moderate-income families comprise 20% and 18%, respectively, of families within the AA. The apparent mismatch is still considered reasonable given:

- Only 37% of census tracts within the Pueblo MSA are designated as moderate-income. There are no low-income census tracts. Middle- and upper-income geographies do not generally support a large inventory of affordable housing. Further, many homes in low- and moderate-income geographies are held by investors as rental property. These factors limit the supply of affordable housing and thus decrease the demand for loans by low- and moderate-income families.
- 32% of the Pueblo MSA population is deemed low- or moderate-income meaning that their annual income is less than \$33,000. Low- and moderate-income families are less

likely to seek and less able to qualify for home purchase and home improvement loans. As a result there is a smaller pool of applicants, which limits the bank's ability to originate a high volume of loans.

<b>Borrower Distribution of Loans Secured by 1-4 Family Residential Real Estate</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Pueblo MSA	20	10	18	0	22	15	20	75

In addition, the bank does a sizable volume of consumer loans not secured by real estate. Although we did not perform an analysis of these loans, the volume would indicate that the bank strives to meet the credit needs of individuals. This is notable given that the bank's stated focus is small business lending.

#### Small Business Lending

The bank's pattern of lending to small businesses, less than \$1 million in annual revenue, is strong.

The distribution of commercial real estate secured loans originated throughout the AA indicates strong performance in lending to businesses of different sizes. Of the 16 loans sampled, 75% by number and 54% by dollar volume were originated to small businesses. Further, 38% by number and 13% by dollar volume were originated to very small businesses with revenues less than \$250,000. This compares favorably to area demographics in which 65% of the businesses for which revenue information was available are small businesses. The table below summarizes our findings.

<b>Distribution of Commercial Real Estate Secured Loans to Businesses</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65	4	31	100%
% of Bank Loans in AA by #	75	25	0	100%
% of Bank Loans in AA by \$	54	46	0	100%

#### **Geographic Distribution of Loans**

The geographic distribution of loans is reasonable.

#### Residential Real Estate Lending

We sampled 20 loans secured by 1-4 family residential real estate originated in the AA. As reflected in the following table, the geographic distribution of these loans is not substantially similar to area demographics.

<b>Loans Secured by 1-4 Family Residential Real Estate</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Assessment Area	% of Owner Occupied Housing	% Number of Loans	% of Owner Occupied Housing	% Number of Loans	% of Owner Occupied Housing	% Number of Loans	% of Owner Occupied Housing	% Number of Loans
Pueblo MSA	0	0	24	5	47	50	29	45

The apparent mismatch of number of loans to percentage of owner occupied housing is not of significant concerns for the reasons described previously.

### Small Business Lending

We sampled 16 loans secured by commercial real estate. There are no low-income geographies in the MSA. Moderate-income geographies in the MSA totaled 37%. The number of small business loans originated in moderate-income geographies totaled 4 or 25%, which is marginally similar to area demographics. The marginal percentage to the similarity to area demographics is greatly influenced by the small sample size.

<b>Geographic Distribution of Loans to Businesses</b>								
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
	0	0	38	25	36	44	26	31

### **Response to Complaints**

The bank has not received any CRA related complaints.

### **Fair Lending and Other Illegal Credit Practices Review**

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