



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 18, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Palisades National Bank
Charter Number 8004**

**600 West 8th Street
Palisade, Colorado 81526**

**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 **The Palisades National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of February 18, 1998. 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.”**

The Palisades National Bank is committed to serving the community in which it operates and demonstrates satisfactory lending performance. Its loan-to-deposit ratio is reasonable given the bank's size, financial condition and assessment area credit needs. The bank originates a substantial majority of loans within its assessment area. Overall, lending activity shows management lends to individuals in all income levels and a predominate proportion of commercial loans are made to businesses and farms with annual revenues of less than \$500,000.

DESCRIPTION OF INSTITUTION:

The Palisades National Bank (PNB) is a community bank located in Palisade, Colorado. Palisade is 12 miles east of Grand Junction, Colorado on the western slope of the Rocky Mountains. PNB operates from its main office, which includes a drive-up teller window, and one nearby detached facility. The bank has a proprietary 24 hour cash dispensing machine (CDM) in a grocery store in downtown Palisade and a non-proprietary CDM in Collbran, Colorado. The bank has not opened or closed any branch offices.

As of December 31, 1997, PNB reported total assets of \$28 million. Palisades Bancshares, Inc., a one-bank holding company, owns 95% of the bank's stock. The remaining ownership is distributed among the bank's directors. There are no financial or legal impediments to the bank's ability to meet the credit needs of the assessment area. The bank received an "Outstanding Record of Meeting Community Credit Needs" rating at its April 7, 1995, CRA examination.

PNB focuses its lending activities on real estate, agriculture and personal loans while providing a full range of depository services. The table below shows the composition of the bank's loan portfolio by loan type. Further, the table reflects the off-season level of agricultural loans.

LOAN PORTFOLIO COMPOSITION		
December 31, 1997		
Loan Type	\$ Amount (In millions)	Percentage of Total Loans
Residential Real Estate	4.5	32%
Agricultural & Farmland	4.4	32%
Non Residential Real Estate & Commercial	3.0	22%
Individuals	2.0	14%
Total Loans	13.9	100%

DESCRIPTION OF MESA COUNTY METROPOLITAN STATISTICAL AREA (MSA):

The bank's board of directors has designated Mesa County MSA as Palisades National Bank's assessment area. This area includes all of Mesa County, Colorado. Based on information from the Grand Junction Chamber of Commerce, the estimated 1997 county population was 109,769. The city of Grand Junction is the county's largest community with an estimated population of 40,125. Other towns in the area include Clifton, Fruita, Palisade, Mesa, Molina, Collbran, and DeBeque.

The Mesa County MSA consists of 21 census tracts. Four tracts are designated moderate-income tracts, 13 tracts are middle-income and four tracts are upper-income. There are no low-income tracts within the MSA based on 1990 census information. However, 19% of the families in the MSA are designated low-income. The bank's assessment area does not arbitrarily exclude any low- or moderate-income census tracts.

The dominant industries in Mesa County by jobs are service, retail and government. The service industry, with five area hospitals, is largely medical. Although the government share of jobs is decreasing, these jobs pay the second highest average wage. Mesa County School District is the largest employer with 2,123 employees. The construction industry is growing, a trend which is expected to continue. Near the Palisade community, agriculture is more prevalent with land use for orchards, vineyards and ranching.

As the only financial institution in Palisade, PNB faces no direct local competition. However, there is strong competition throughout the assessment area. According to the bank's count, there are 13 banks and 17 branch banking offices located throughout the MSA. Additionally, there are nine credit unions and numerous mortgage loan companies operating in the MSA.

Community Credit Needs

Our review included identification of community credit and service needs throughout the Mesa County assessment area. We reviewed information from quasi-public organizations and economic development group representatives to other federal regulators within the bank's market during the past year. Based on the information from these sources, we identified the following community needs.

- ▶ Affordable housing, including financing with favorable terms.
- ▶ Small business loans.

Our direct contact with the Palisade town government revealed this community's credit needs are substantially met and access to banking service is adequate.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending in the Assessment Area

Palisades National Bank originates a substantial majority of its loans within the assessment area. Ninety-three percent of the agricultural loans originated during 1997 were made within the bank's assessment area. During this same period, ninety-five percent of the consumer residential loans originated by the bank were made to borrowers in the assessment area. As the *Loan Portfolio Composition* table shows, these two types of loans comprise nearly two-thirds of the bank's dollar loan volume.

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

The bank's lending patterns reflect good distribution among individuals of different income levels and businesses and farms of different sizes. Loan originations show the bank's focus on loans to small businesses and farms. Further, consumer loan originations compare favorably to assessment area demographics. The following tables summarize the borrowers' profiles.

Loans to Consumers

The table shows that Palisades National Bank actively lends to individuals of all income levels. Thirty-two percent of the consumer residential loans were made to low- and moderate-income individuals. This is a reasonable penetration of the low- and moderate-income families in the assessment area.

DISTRIBUTION OF CONSUMER RESIDENTIAL LOANS BY BORROWER INCOME LEVEL			
Income Category	Loans Originated - 1997		Family Distribution Within Each Income Category
	Number	Percent	Percent
Low-income (<\$18.9M)	4	21%	19%
Moderate-income (\$18.9M - \$30.3M)	2	11%	18%
Middle-income (\$30.3M - \$45.4M)	8	42%	23%
Upper-income (>\$45.5M)	5	26%	40%
Total Loans	19	100%	100%

Note: The 1997 Department of Housing and Urban Development (HIUD) median-family income for MSA areas of Colorado was \$37.9M.

PNB makes a substantial number of consumer loans, excluding overdraft line of protection loans, for less than \$2,500. During 1997, the bank made 400 consumer loans of which 162, or 40%, were less than \$2,500. By using loan size as a proxy for income of the borrower, the bank further demonstrates its effort to meet the credit needs of low- and moderate income borrowers.

Loans to Commercial and Agricultural Borrowers

A substantial majority of the bank's commercial loans are to small businesses and small farms. As shown in the table, xx% of the business loans and 93% of the agriculture loans were to entities with gross annual revenue under \$500,000.

DISTRIBUTION OF BUSINESS/AGRICULTURE LOANS BY ANNUAL REVENUE (Loans Originated - 1997)				
Gross Annual Revenue	# Business	% Business	# Agriculture	% Agriculture
\$0 - \$500,000			27	93%
\$501,000 - \$1,000,000			2	7%
>\$1,000,000			0	0%
Total Loans		100%	29	100%

Geographic Distribution of Loans

An analysis of geographic loan distribution is not meaningful. The Mesa County MSA has no low-income census tracts and the four moderate-income census tracts are in the Grand Junction community. The group of census tracts in PNB's primary trade area, which includes the towns of Palisade, Collbran, DeBeque and Clifton, are middle income. The substantial majority of PNB's loans are to borrowers in these towns.

Loan-to-Deposit Ratio

PNB's loan-to-deposit ratio is reasonable given its size and operating environment. However, there are no local institutions considered similarly situated to this bank based on size, business focus and ownership. The bank's average loan-to-deposit ratio for eight quarters ending September 30, 1997 is 56%. This is lower than the 64% average loan-to-deposit ratio for small Colorado banks. We also considered a group of 12 western Colorado banks of similar size. The average loan-to-deposit ratio for these banks over the eight quarter period is 70%.

Response to Substantiated Complaints

The bank has not received any written complaints regarding its CRA performance since the prior CRA examination.

Fair Lending Review

The bank is in substantial compliance with Fair Lending laws and regulations. Our fair lending review, conducted during the September 15, 1997, compliance examination, found no unusual patterns or discriminatory lending practices.