



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

April 30, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Palisades National Bank
Charter Number 8004**

**600 West 8th
Palisade, CO 81526**

**Comptroller of the Currency
Salt Lake City Field Office
2795 Cottonwood Parkway, Suite 390
Salt Lake City, Utah 84121**

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 Palisades National Bank's (PNB) average loan-to-deposit ratio since the last examination is reasonable.
- PNB originated a substantial majority of its loans in the assessment area.
- The geographic distribution of the bank's loans in low- and moderate-income tracts is adequate.
- PNB's lending distribution to businesses and farms of different sizes and consumers with different incomes is satisfactory.

DESCRIPTION OF INSTITUTION

PNB is a \$50 million institution located on the western slope of Colorado. The bank is wholly-owned by Bank of Choice Holding Company located in Greeley, Colorado. PNB received a "Satisfactory" CRA rating at the last examination dated September 30, 2002. The bank's primary loan products consist of agricultural, commercial, and consumer credit. PNB operates its main office location, a downtown location, and an automated teller machine in Palisade, Colorado, as well as an automated teller machine in Grand Junction and one in Clifton, Colorado. All facilities are located in the assessment area. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the assessment area. Please refer to the bank's *CRA Public File* for more information.

DESCRIPTION OF THE GRAND JUNCTION METROPOLITAN STATISTICAL AREA (MSA)

PNB designates the Grand Junction MSA as its assessment area (AA). The assessment area complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Grand Junction, Colorado, is located in a valley at the junction of the Colorado and Gunnison Rivers on the western slope of the Rocky Mountains. The Grand Junction MSA encompasses all of Mesa County, Colorado. The city of Grand Junction is the largest community in the county and in western Colorado. Other communities in the MSA include Palisade, Clifton, Collbran, DeBeque, Fruita, Mesa, and Molina. According to the U.S. Census Bureau, the 2000 population of the MSA was 116,255 and was an estimated 134,189 as of July 1, 2006, a 15 percent increase. The MSA has 28 census tracts with five moderate-income tracts, sixteen middle-income tracts, and seven upper-income tracts. There are no low-income tracts. The U.S. Department of Housing and Urban Development (HUD) lists the MSA's updated median family income (MFI)

as \$50,100 for 2006. The median housing value in the MSA for 2000 was \$118,900, according to the U.S. Census Bureau.

The Grand Junction economy is strong. Employment growth is accelerating rapidly and is well above state and national averages. Natural resource mining in the MSA is expanding at a blistering pace, posting double-digit growth for nearly three years. Due to intensifying energy exploration efforts, the mining industry has added over 1,000 jobs since 2003, an increase of over 140 percent. This intensity in hiring is due to the elevated prices of energy, especially that of oil. The construction industry in the MSA was posting double-digit growth, largely due to new homebuilding. However, this will change in the near term as it appears the housing market has peaked. Major employers in the AA include: seven medical services entities including St. Mary's Hospital, Hilltop Community Resources, Grand Junction Regional Center, Community Hospital, Rocky Mountain HMO, and Family Health West; along with Mesa State College; Wal-Mart Stores, Inc.; City Markets, Inc. Mesa County is noted for its wide variety of agricultural produce. Mesa County's mild climate is a sharp contrast to the eastern slope of Colorado. Both conditions of moderate temperatures and lower humidity create perfect growing conditions for grapes. There are a number of area wineries and vineyards.

Examiners made one community contact from the MSA and reviewed one recent community contact performed by the OCC in the MSA. The contacts indicated the economy is mostly reliant on the energy sector but is more diversified than in the last boom. The growth and rise in real estate and construction costs is largely due to employment growth in the energy industry. The contacts indicated that the financial institutions in the community are very competitive and that they are meeting the credit needs of the AA. The primary credit needs in the AA include loans for affordable housing and small business loans.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The Palisades National Bank's (PNB) average loan-to-deposit ratio since the last examination is reasonable. The bank's average loan-to-deposit ratio over the past 18 quarters is 58%. Most of the institutions competing in this MSA are branch offices of larger institutions, and loan-to-deposit information is not available. We calculated the loan-to-deposit ratio for a bank operating in the same AA, but that bank has a somewhat different banking focus and is much larger than PNB.

Lending in Assessment Area

PNB originated a substantial majority of its loans in the assessment area. Based on our sample, PNB originates 90 percent of its loans by number and 88 percent by dollar amount within its assessment area. The sample consisted of 20 loans of each primary product originated this year or in the prior two years.

| Table 1 - Lending in Grand Junction MSA | | | | | | | | | | |
|--|-----------------|-----|---------|----|-------|------------------|-----|---------|----|-------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Agricultural | 17 | 85 | 3 | 15 | | 1,237,346 | 91 | 122,902 | 9 | |
| Commercial | 17 | 85 | 3 | 15 | | 1,167,393 | 83 | 242,572 | 17 | |
| Consumer | 20 | 100 | 0 | 05 | | 168,914 | 100 | 0 | 0 | |
| Totals | 54 | 90 | 6 | 10 | 100 | 2,573,652 | 88 | 365,474 | 12 | 100 |

Source: *Loan sample.*

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

The bank's lending distribution to businesses and farms of different sizes and consumers with different incomes is satisfactory. To assess the bank's performance, examiners selected a sample of 60 loans granted in 2005, 2006, and year-to-date 2007. The bank's primary loan products are commercial loans, agricultural loans, and commercial real estate construction loans. The sample included 20 loans of each product type.

The distribution of consumer loans to borrowers with different income levels is good. Based on our sample of consumer loans, the bank's distribution of loans to individuals in the low- and moderate-income categories exceeded the percentage of AA households that are low- and moderate-income. The bank made 50 percent of its consumer loans to low- and moderate-income borrowers, which compares favorably with demographic data showing 39 percent of individuals in the area fall into the low- and moderate-income category.

| Table 2A- Borrower Distribution of Consumer Loans in Grand Junction MSA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 22 | 20 | 17 | 30 | 21 | 35 | 40 | 15 |

Source: *Loan sample; U.S. Census data.*

The distribution of loans to agricultural borrowers of different sizes is satisfactory. Based on our agricultural loan sample, the bank's distribution of loans to agricultural borrowers of different sizes exceeds AA demographics. All borrowers in our sample had revenues of less than one million dollars, which is somewhat higher than AA demographics. Ninety percent of AA farms reported revenues of less than one million dollars.

| Table 2B - Borrower Distribution of Loans to Farms in Grand Junction MSA | | | | |
|---|--------------|--------------|----------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Farms | 90 | 10 | | 100% |
| % of Bank Loans in AA by # | 100 | 0 | 0 | 100% |

| | | | | |
|-----------------------------|-----|---|---|------|
| % of Bank Loans in AA by \$ | 100 | 0 | 0 | 100% |
|-----------------------------|-----|---|---|------|

Source: *Loan sample; U.S. Census data.*

The distribution of loans to commercial borrowers of different sizes is adequate. Based on our sample, the bank's distribution of loans to commercial businesses of different sizes is somewhat lower than AA demographics. Eighty percent of the number and 64 percent of the amount of loans in our commercial sample had revenues of less than one million dollars, compared to AA demographics reflecting 94 percent of AA businesses having revenues of less than one million dollars.

Table 2C - Borrower Distribution of Loans to Businesses in Grand Junction MSA

| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
|------------------------------|--------------|--------------|-------------------------|-------|
| % of AA Businesses | 94 | 6 | | 100% |
| % of Bank Loans in AA by # | 80 | 20 | 0 | 100% |
| % of Bank Loans in AA by \$ | 64 | 36 | 0 | 100% |

Source: *Loan sample; U.S. Census data.*

Geographic Distribution of Loans

The geographic distribution of the bank's loans in low- and moderate-income tracts is adequate.

The geographic distribution of consumer loans is lower than the demographic comparator. Based on our sample, the bank made five percent of the number of its consumer loans in moderate-income census tracts, compared to AA demographics of 18 percent.

Table 3A- Borrower Distribution of Consumer Loans in Grand Junction MSA

| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
|--------------------------|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|----------------------------|
| | % of AA Households | % of Number of Loans |
| Consumer Loans | 22 | 20 | 17 | 30 | 21 | 35 | 40 | 15 |

Source: *Loan sample; U.S. Census data.*

The bank's geographic distribution of small loans to businesses and farms is poor but mitigated considering both of the bank's offices are located in Palisade, a middle-income geography surrounded by middle-income geographies. Four of the AA's moderate-income census tracts are in Grand Junction and closer to numerous other financial institutions. Twenty-seven percent of the number of AA business and ten percent of AA farms are located in moderate-income census tracts.

Table 3B - Geographic Distribution of Loans to Businesses in Grand Junction MSA

| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
|------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|
| Loan Type | % of AA Businesses /Farms | % of Number of Loans | % of AA Businesses/ Farms | % of Number of Loans | % of AA Businesses /Farms | % of Number of Loans | % of AA Businesses /Farms | % of Number of Loans |
| | NA | NA | 27 | 0 | 51 | 95 | 22 | 5 |

Source: Loan sample; Dunn and Bradstreet data.

Table 3C - Geographic Distribution of Loans to Farms in Grand Junction MSA

| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
|------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|
| Loan Type | % of AA Businesses /Farms | % of Number of Loans | % of AA Businesses/ Farms | % of Number of Loans | % of AA Businesses /Farms | % of Number of Loans | % of AA Businesses /Farms | % of Number of Loans |
| | NA | NA | 10 | 0 | 75 | 65 | 25 | 25 |

Source: Loan sample; Dunn and Bradstreet data.

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

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