



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 4, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Colorado Springs
Charter Number 17226**

**4328 Edison Avenue
Colorado Springs, CO 80915**

**Comptroller of the Currency
Denver Field Office
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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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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 of Colorado Springs as prepared by **Comptroller of the Currency**, the institution's supervisory agency, as of September 4, 2001. 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.

First National Bank of Colorado Springs (FNB) satisfactorily meets the credit needs of its assessment area, including low- and moderate- income individuals and areas, consistent with its resources and capabilities. The following supports this rating:

- The bank's loan-to-deposit ratio meets the standards for satisfactory performance.
- A substantial majority of loans have been originated within the assessment area.
- The distribution of loans to borrowers of different incomes and businesses of different sizes is satisfactory.
- Geographic penetration of commercial and residential real estate loans in the assessment area is satisfactory.

DESCRIPTION OF INSTITUTION

As of March 31, 2001, FNB is a \$48 million community bank. FNB was formerly named Bank of the Rockies, N.A., and changed its name in August of 1999. The bank has one branch and two deposit-taking automated teller machines all located in Colorado Springs. The bank opened its downtown branch in July 2000. FNB does not have any operating subsidiaries. They have no affiliate relationships to consider in this evaluation.

FNB is wholly owned by Financial Services of the Rockies, Inc., a one-bank holding company located in Colorado Springs, Colorado. The holding company reported total assets of \$5 million as of June 30, 2001.

FNB is a full-service banking institution, offering various commercial and retail banking services. The primary lending focus of the bank is commercial and residential construction lending. The bank also opened a mortgage-lending department in August 2000. Loans are generally sold to the secondary market within 45 days of origination. As of March 31, 2001, net loans represented 52% of total assets. The following table shows the composition of the loan portfolio as of March 31, 2001.

<i>Loan Portfolio Composition - March 31, 2001</i>	
	Percent of Loans Based on Dollar Amount
Residential Construction	29%
Commercial	26%
Loans to Individuals	16%
Residential Mortgage Loans	20%
Commercial Real Estate	8%
Home Equity Lines of Credit	1%
TOTAL LOANS	100%

FNB's financial condition is satisfactory and does not hinder its ability to meet community credit needs. The bank was rated satisfactory at the previous CRA examination dated August 11, 1997. Factors that impede the bank's ability to make loans in its primary product line and to penetrate its entire assessment area include its small size, limited delivery system, and strong competition from other financial institutions and mortgage companies.

DESCRIPTION OF EL PASO COUNTY ASSESSMENT AREA

FNB has designated El Paso County as the bank's assessment area. El Paso County makes up the Colorado Springs Metropolitan Statistical Area (MSA). This includes the city of Colorado Springs and towns of Monument, Manitou Springs, Palmer Lake, and Fountain. El Paso County is located in south central Colorado. The 2000 population of the MSA was 516,929 according to the U.S. Census Bureau. This represents approximately 30% growth in the past 10 years. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The MSA is comprised of 84 contiguous census tracts. The following table shows the number and percentage of census tracts by income level within the assessment area:

Assessment Area Composition		
Borrower Income Level	Number of Census Tracts	Percentage of Census Tracts by Borrower Income
Low	2	2%
Moderate	27	32%
Middle	37	44%
Upper	18	22%

Economic conditions remain good. The June 2001 unemployment rate of 3.5% is well below the national average. Much of the prosperity of the MSA is attributed to the presence of the large military installations. Those are Fort Carson Army Base, Peterson Air Force Base, and the U.S. Air Force Academy. The breakdown of employment by economic sector shows 33% in services, 23% in trade, and 16% in government. A large population of retired military personnel resides in El Paso County. In addition, Colorado Springs has recently attracted a few technology companies, further boosting growth.

Population growth has led to a robust real estate market. While some softening has occurred during 2001, construction activity continues to be strong, powered by surging demand for commercial and residential space in the metro area. Rising housing prices have exerted downward pressure on housing affordability. The median existing home price for Colorado Springs at year-end 2000 was \$154,000. House prices in Colorado Springs are growing at 7.6%, while median family household income is only growing at 5.8%. The 2001 updated HUD Median Family Income of the assessment area is \$53,600. Based upon 1990 U.S. Census data, 10% of the assessment area population has income below poverty level. The breakdown of families by income level is 18% low income, 20% moderate income, 23% middle income, and 39% upper income. Approximately 51% of total housing units in El Paso County are owner occupied. Most owner-occupied housing lies in middle- and upper-income census tracts.

The financial services sector is extremely competitive. El Paso County has more than 400 financial institutions, mortgage companies, and other non-bank entities. Due largely to FNB's small size, the bank does not have a significant deposit or lending market share in Colorado Springs.

During our examination, we contacted the president of the local realtors association to discuss current economic conditions, the residential real estate market, and credit needs. We also reviewed three recent community contacts performed by other regulatory agencies. These community contacts were organizations in the fields of economic development and affordable housing. These contacts indicate there is a need for banks to provide affordable home mortgage loans, down payment assistance, home ownership counseling, and financial counseling for low- and moderate-income individuals. There is also a need for venture capital financing for start-up businesses.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB satisfactorily meets the credit needs of its assessment area, including low- and moderate-income individuals and areas, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

- **The bank's loan-to-deposit ratio meets the standards for satisfactory performance.**

FNB's level of lending is satisfactory given the bank's size, assessment area needs, and the competitive banking market in Colorado Springs. The bank's average loan-to-deposit ratio for the last 15 quarters is 50%. Five other area financial institutions of similar size and characteristics have 15-quarter loan-to-deposit averages of 46%, 58%, 64%, 72%, and 83%. Other area institutions, such as large regional banks with dissimilar product mix are not suitable for comparison. While FNB's ratio is slightly below the median range of similarly situated banks, it must be noted that FNB has one unusually large deposit customer representing almost 50% of total deposits. As of March 31, 2001, the bank's loan -to-deposit ratio would increase from 57% to nearly 100%, if the large deposit account were excluded. In addition, loans originated in the mortgage loan department are sold on the secondary market and not reflected in the bank's loan-to-deposit ratio. In 2000, the bank made 15 purchase mortgage loans totaling \$1.9 million.

Lending in the Assessment Area

- **The bank's level of lending within the assessment area is good.**

FNB's level of lending within its assessment area is good given the bank's size and assessment area needs. We randomly sampled 62 loans totaling \$8,721,000. Our sample included the bank's three primary loan products of commercial, residential construction, and residential real estate loans. We sampled 26 commercial loans originated since the last CRA examination and 12 residential construction loans originated or purchased since 1998. We also analyzed 24 residential real estate loans originated in 2000. 2000 was the first year that FNB was required to

compile and disclose data under the Home Mortgage Disclosure Act (HMDA). Therefore, our sample included all loans reported on the bank's 2000 HMDA Loan Application Register (HMDA-LAR). We were unable to sample residential real estate loans originated in 2001 due to errors and incomplete data on the bank's 2001 HMDA report.

We determined that 90% of the total number of loans and 90% of the total dollar amount of loans sampled were made within the bank's assessment area. The following table demonstrates the distribution of loans by loan type that FNB originated inside its assessment area.

PERCENTAGE OF LENDING WITHIN THE ASSESSMENT AREA		
Loan Type	By Number of Loans Sampled	By Dollar Amount of Loans Sampled
Commercial Loans	88%	87%
Residential Construction	75%	81%
Residential Real Estate	100%	100%

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

- **The distribution of loans to borrowers of different incomes and businesses of different sizes is satisfactory.**

We used a sample of commercial loans and residential mortgage loans made in the bank's assessment area to determine the bank's lending to businesses of different sizes and borrowers of different incomes. While residential construction loans constitute a significant portion of the loan portfolio by dollar volume, we did not include these loans in our sample because:

- Complete data regarding the number of loans in this category was not readily available;
- A significant percentage (25%) of these loans were outside of the bank's assessment area; and
- This type of loan was not identified as a credit need in the assessment area.

Commercial loan originations within the bank's assessment area satisfactorily demonstrate that the bank is extending loans to businesses of various sizes, with the majority to small businesses. We reviewed a sample of 23 commercial loans originated in the bank's assessment area to determine the level of lending to businesses of different sizes. Businesses with gross annual revenues of \$1 million and below are designated "small business." The majority of commercial loans are made to businesses with revenues under \$1 million. It should be noted that of the seven loans in our sample made to what are considered large businesses, five loans are to businesses with annual revenues less than \$3 million, indicating that these businesses are not exactly large enterprises. Although the bank's loan penetration by dollar volume is below area demographics, our sample showed that 48% of the total dollars loaned to businesses were to businesses with revenues under \$500,000. Such businesses typically need loans in smaller amounts. This further reflects the bank's commitment to small business lending. The following table illustrates the distribution of commercial loans.

DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE					
Annual Revenues	Number of Loans	Percent of Loans Based on Number	Total Dollar Amount (000's)	Percent of Loans Based on Dollar Amount	Percent of Businesses Reported in AA
Less than \$1million	16	70%	1,191	50%	88%
Greater than \$1 million	7	30%	1,182	50%	7%
Revenue Not Reported	0	--	--	--	5%

The distribution of real estate loans reflects that there is acceptable penetration of loans to low- and moderate-income families. Our residential real estate loan sample included 24 loans originated and reported on the 2000 HMDA-LAR. These loans are primarily home purchase loans. The distribution of loans to low- and moderate-income individuals is significantly below area demographics. However, it is acceptable when considering the following facts which we weighted heavily in making our conclusion:

- Strong competition from larger financial institutions and mortgage companies that have established themselves in the mortgage lending market. Many of these entities have developed specific loan products and marketing programs to attract and meet the specific needs of low- and moderate-income individuals.
- FNB only recently entered the market as a mortgage lender.
- Our loan sample only covered four months of operation for the mortgage loan department.
- Ten percent of the population in the assessment area has income below the poverty level.
- The assessment area has a high percentage of retired households (18%) with a corresponding high percentage of households (18%) that are on social security and typically do not require or request mortgage loans at this stage of their lives.
- High housing costs prevent low- and moderate-income individuals (making less than \$26,000 and \$42,000, respectively) from being able to afford a home. A low- to moderate-income family in El Paso County can reasonably afford a home priced between \$84,000 and \$136,000 with a 5% down payment. Our contact with a local realtor indicated that there are very few homes priced under \$100,000.
- Rental housing comprises 38% of total housing units, further limiting home ownership opportunities.

The following table reflects the distribution of residential real estate loans to borrowers of different income levels and compares the distribution to assessment area demographics.

DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY ANNUAL INCOME					
Borrower Income Level	Number of Loans in Sample	Percent of Loans Based on Number	Total Dollar Amount (\$000's)	Percent of Loans Based on Dollar Amount	Percent of Families in AA by Income
Low (<50%)*	0	0%	0	0%	18%
Moderate (50% to 79%)*	1	4%	127	4%	20%
Middle (80% to 119%)*	5	21%	594	18%	23%
Upper (>120%)*	18	75%	2,532	78%	39%

* % of Updated Median Family Income of \$53,600.

Geographic Distribution of Loans

- **The geographic distribution of loans to businesses and consumer borrowers is satisfactory.**

Loan penetration in all census tracts is close to area demographics. We reviewed a sample of 23 commercial loans that were originated in the assessment area since the last CRA examination. Small business lending is a primary focus for the bank. Of particular note, 52% of the number of commercial loans and 33% of the dollar volume of loans in our sample were made in low- or moderate-income census tracts. This compares favorably to business demographics which show that 34% of businesses reside in the low- and moderate-income tracts. The following table illustrates the geographic distribution on the bank's commercial lending within the assessment area.

COMMERCIAL (NON-FARM) LOANS				
Tract Income Level	Number of CTs in AA by Income Tract	Percent of Businesses in Tract	Percent of Loans by Number	Percent of Loans by Dollar Volume
Low	2	2%	4%	4%
Moderate	27	32%	48%	29%
Middle	37	36%	22%	33%
Upper	18	30%	17%	27%
TOTAL	84	100%	100%	100%

Given the high level of competition for mortgage loans in the assessment area coupled with the bank's small size and recent entrance into this lending market, the bank's penetration is reasonable for real estate secured loans. We reviewed the geographic distribution of all residential real estate loans originated in the assessment area and reported on the bank's 2000 HMDA-LAR. It should be noted that the mortgage loan department only operated for the last four months of 2000. Our sample revealed that the bank had not made any loans in low-income census tracts and only 9% penetration in moderate-income tracts. This is mitigated by the lack of owner-occupied housing units in the low- and moderate-income census tracts, which limits the opportunities for home purchase lending. About 49% of the available housing units in low- and moderate-income tracts are rentals. The following table shows the geographic distribution of the bank's mortgage lending within the assessment area.

RESIDENTIAL REAL ESTATE LOANS				
Income Tract Levels	Number of CTs in AA by Income Tract	Percent of Owner-Occupied Housing by Tract	Percent of Loans made by Number	Percent of Loans made by Dollar Amount
Low	2	1%	0%	0%
Moderate	27	19%	9%	9%
Middle	37	46%	58%	55%
Upper	18	34%	33%	36%
TOTAL	84	100%	100%	100%

Response to Complaints

FNB did not receive any CRA-related complaints during this evaluation period.

Record of Compliance with Antidiscrimination Laws

We analyzed 1997-2001 small business and residential real estate lending data, public comments and consumer complaint information, according to the OCC's risk-based fair lending approach. Our analysis revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with this CRA evaluation. The previous comprehensive fair lending examination was performed in conjunction with our consumer compliance examination dated December 31, 1999.