



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 14, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Canon National Bank
Charter Number 16392**

**816 Royal Gorge Blvd
Canon City, CO 81215**

**Comptroller of the Currency
Denver Field Office
1099 18th Street Suite 2650
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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

A satisfactory rating is appropriate in each of the bank's designated assessment areas (AA) given the bank's demonstrated ability to meet the credit needs of the community including loans to low- and moderate-income individuals and small businesses. Specifically:

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

The bank's quarterly loan-to-deposit ratio since the previous CRA exam is 76 percent. The loan-to-deposit ratio of similarly situated banks over the same time period ranged between 50 percent and 86 percent. Similarly situated banks are those banks of similar business lines operating within the same geography.

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

Of the 22 commercial loans sampled, 97 percent by dollar volume and 95 percent by number were originated within the AA.

Of the HMDA reportable loans originated in 2002, 91 percent by dollar volume and 94 percent by number were originated within the AA.

- The bank's pattern of lending to low- and moderate-income individuals and small businesses reasonably reflects area demographics.

The distribution of residential home purchase and refinance loans to borrowers of different income levels is reasonable. An analysis of 46 loans originated in Fremont County in 2002 shows 11 percent by number and dollar volume were originated to low- and moderate-income individuals. This is reasonable penetration given the large transient population of Canon City that precludes a large number of families from the home-purchase market.

Within the Pueblo MSA, 21 percent by number and 13 percent by dollar volume were originated to low- and moderate-income individuals. The availability of owner-occupied housing has a negative impact on low- and moderate-income individuals as lower-cost housing is largely maintained as rental property.

The distribution of commercial loans originated throughout the AA shows good performance in lending to businesses of different sizes. Of the 21 commercial loans sampled, 81 percent by number and 69 percent by dollar volume were originated to small businesses. Of these, 43 percent by number and 51 percent by dollar volume were originated to very small businesses with revenues less than \$250,000.

- The geographic distribution of loans within the Pueblo MSA and Fremont County is good.

Of the 21 commercial loans originated in the AA, nine were originated in the Pueblo MSA. Of these 22 percent by number and 58 percent by dollar volume were originated in low- or moderate-income census tracts. This compares favorably with the census tract distribution of Pueblo County in which 35 percent of the census tracts are designated as low- or moderate-income.

Of the 12 commercial loans originated in Fremont County, 58 percent by number and 62 percent by dollar volume were originated in moderate-income block numbering areas (BNAs). There are no low-income BNAs in Fremont County. Within Fremont County 44 percent of the BNAs are designated as moderate-income.

Of the 34 residential loans originated in 2002 in the Pueblo MSA, 13 percent by number and 7 percent by number were originated in low- or moderate-income census tracts. This is reasonable given that 35 percent of the available housing in Pueblo is either rental property or vacant. These properties are largely located in the low- and moderate-income census tracts and are therefore not available for purchase.

We were unable to perform an analysis of the geographic distribution of residential loans originated in Fremont County, as the bank is not required to maintain this information. Obtaining this information would have been overly burdensome. The moderate-income census tracts are all located in or near Canon City, which is where the county's population is concentrated. Based on this fact and the bank's pattern of lending to small businesses in Fremont County, it is presumed the bank's pattern of residential real estate lending in moderate-income geographies in Fremont County is reasonable.

An analysis of the geographic distribution of loans within the Colorado Springs MSA was not meaningful, as the level of bank activity in this MSA is minimal and does not materially impact the bank's CRA rating.

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

Canon National Bank is committed to serving the communities in which it operates and demonstrates satisfactory lending performance.

DESCRIPTION OF INSTITUTION

Canon National Bank is a \$151 million institution located in Canon City, Fremont, Pueblo, Colorado City, and Colorado Springs, Colorado. The bank is a stand-alone bank with no holding company affiliation.

The bank operates seven full service facilities. The main bank and one branch are located in Canon City, Colorado. Two branches are located in Pueblo, Colorado. One branch is located in each town of Florence, Colorado City, and Colorado Springs, Colorado. The bank also operates seven deposit-taking ATMs. One is located at each branch, except Florence, Colorado. A deposit-taking ATM is located at a convenience store in Florence to meet the communities' banking needs.

Canon NB's primary loan products by dollar volume are commercial loans including commercial real estate (50%) and residential real estate (28%). Net loans represent 63 percent of the bank's total assets. There are no legal or financial impediments to the bank's ability to meet the credit needs of the assessment areas.

Canon NB received a "Satisfactory" rating at the last CRA examination dated August 3, 1998.

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

DESCRIPTION OF FREMONT COUNTY, PUEBLO MSA, AND COLORADO SPRINGS MSA

Management has designated three assessment areas (AA). The first AA is Fremont County, Colorado. Fremont County contains nine block-numbering areas (BNAs), four (44%) of which are designated as moderate-income geographies and five (56%) that are designated as middle-income geographies.

The Department of Housing and Urban Development (HUD) 2002 updated non-MSA median-family income for Fremont County is \$43,700. Based on 1990 US Census data there are 8,216 families residing within the AA of which 46 percent are deemed low- and moderate-income. Income designations are determined based on annual income as a percentage of the non-MSA median-family income.

The second AA is the entire Pueblo Metropolitan Statistical Area (MSA). The Pueblo MSA is comprised of 48 census tracts, of which seventeen, or 35 percent, are deemed to be low- or moderate-income geographies.

The HUD 2002 updated MSA median-family income for the Pueblo MSA is \$39,400. Based on 1990 US Census data there are 33,574 families residing within the Pueblo MSA, of which 39 percent are deemed low- and moderate-income.

The third AA is the entire Colorado Springs MSA. We did not conduct an analysis of the Colorado Springs MSA as the bank's presence there is minimal. Our review of the bank's activity in the Colorado Springs MSA did not reveal any activity that would adversely affect the overall rating.

The AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies.

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