



## PUBLIC DISCLOSURE

August 03, 2015

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Durango  
Charter Number 2637

259 West 9th Street  
Durango, CO 81302

Office of the Comptroller of the Currency  
Denver Field Office  
1225 17th 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.**

**The Lending Test is rated: "Satisfactory".**

**The Community Development Test is rated: "Satisfactory".**

The major factors supporting the rating are as follows:

- The loan-to-deposit (LTD) ratio is reasonable given the Bank's deposit and lending activities, as well as the Bank's size and assessment area credit needs.
- The Bank originated a substantial majority of its loans within its delineated assessment area (AA).
- The borrower distribution of First National Bank of Durango's loans reflects a reasonable penetration of loans to borrowers of different income levels and businesses with revenues of \$1 million or less in the Bank's AA.
- The Bank provided an adequate level of community development (CD) activities in its AA.

## **Scope of Examination**

We performed a full-scope review of the Bank's only AA – La Plata County, using Intermediate Small Bank (ISB) CRA examination procedures. An ISB examination consists of two tests: A lending test and a community development test. The lending test for this review includes home mortgage and commercial loans originated from January 1, 2013 through December 31, 2014. We identified commercial and home mortgage loans as the Bank's primary loan products. Our sample includes 30 home mortgage loans and 28 commercial loans. The data from the 58 loans was used to calculate the inside/outside ratio. The remaining lending test considered only loans in the Bank's AA. The community development test includes qualified loans, investments and/or donations, and services from the date of the last CRA examination, July 12, 2012 through July 31, 2015. CD loans, investments, and services made or rendered during the evaluation period were reviewed to determine their eligibility for consideration. In this review, we concluded only on those activities found to meet the definition of CD.

## **Description of Institution**

The First National Bank of Durango (FNBD or Bank) is an intrastate bank headquartered in Durango, Colorado. The Bank was founded in April 1882. FNBD operates a main office in addition to four other branches in La Plata County. The Bank also operates eleven ATMs throughout the AA. This includes four deposit-taking ATMs – two are located at the main office; one is located at Mercy Regional Medical Center; and the fourth is located at Fort Lewis College. FNBD did not open or close any branches during the evaluation period.

As of June 30, 2015, FNBD had \$474 million in total assets, \$425 million in total deposits, and tier one capital of \$41 million. FNBD is a wholly owned subsidiary of First Bancorporation of Durango, Inc. located in Inverness, IL. As of December 31, 2014, the holding company reported \$651 million in total assets. The holding company also owns an independent state bank, the Bank of New Mexico, which is located in Grants, New Mexico.

Historically, FNBD’s primary focus has been small business loans. According to FNBD’s 2015 Strategic Plan, the Bank is the leading institution in the AA in the category of financing commercial real estate purchase activity at over 35 percent market share. The Bank’s secondary focus is residential real estate lending. However, residential real estate lending is extremely competitive due to larger financial institutions in the market, such as Bank of Colorado, Wells Fargo, and Alpine Bank.

As of June 30, 2015, net loans equaled \$142 million, representing 30 percent of total assets. FNBD’s loan portfolio consists of the following:

<b>Loan Type</b>	<b>% of Loan Originated/ Purchased during evaluation period</b>
<b>1-4 Family Residential</b>	<b>26%</b>
Consumer Loans	1%
Commercial Loans	17%
Multi-family Loans	4%
<b>Small Business Loans</b>	<b>50%</b>
Farm Loans	2%
Total	100%

There are no financial or legal factors that impede the Bank’s ability to meet the credit needs of its AA. The Bank was previously rated under the ISB CRA Test and received a “Satisfactory” rating from the Office of the Comptroller of the Currency on July 31, 2012. Additional details about FNBD may be found in its Public File located at the main office.

## **Description of Assessment Area**

FNBD has designated all ten census tracts (CT) in La Plata County, Colorado as its AA. All five of the Bank’s branches and 11 ATMs are located in La Plata County. The AA includes the towns of Durango, Bayfield, Ignacio, and portions of the Southern Ute and the Ute Mountain Indian Reservations. The entire area is a non-metropolitan statistical area. The census data indicates that the tracts are evenly distributed between upper- and middle-income CTs; there are no low- or moderate-income CTs in La Plata County.

Demographic Information for Full Scope Area: La Plata County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0	0	50	50	0
Population by Geography	51,334	0	0	50.18	49.82	0
Owner-Occupied Housing by Geography	14,176	0	0	49.48	50.52	0
Business by Geography	0	0	0	0	0	0
Farms by Geography	0	0	0	0	0	0
Family Distribution by Income Level	13,108	15.78	15.75	19.26	49.21	0
Distribution of Low and Moderate Income Families throughout AA Geographies	20,512	0	0	55.94	44.06	0
Median Family Income		69,319	Median Housing Value	337,000		
HUD Adjusted Median Family Income for 2015		60,700	Unemployment Rate (2015			
Households Below Poverty Level		9.42%	US Bureau of Labor and Stats.)	4.0%		

The 2012, 2013, 2014, and 2015 HUD adjusted median family income levels for the AA are \$61,000, \$59,600, 57,600, and \$60,700, respectively. The AA meets the legal requirements of the regulation and does not arbitrarily exclude LMI geographies.

Economy

La Plata County’s economy is predominately service-based, with tourism and local government jobs serving as economic engines. The county’s economy is driven by multiple public entities that include local school districts, a university, as well as federal, state, county, and municipal employers. The most noteworthy employers are the Southern Ute Indian Tribe, with about 1,245 employed in tribal administration and various commercial enterprises, and Mercy Hospital, a top healthcare provider with over 900 employees. Tourism continues to play a significant role in the local economy, providing numerous employment opportunities in lodging, food and beverage, and retail industries. According to data compiled by the U.S. Bureau of Labor and Statistics, the unemployment rate in the AA has been declining since the last CRA examination, receding from 6.9 percent in 2012 to 4.0 percent in 2015. The decline is attributed to a steady recovery of national economy that encompasses a positive impact on the tourism industry.

Housing and Opportunities for Home Mortgage Lending

According to the La Plata Housing Alliance report, median home prices in the county continue to escalate, making homes less affordable to low- and moderate-income buyers. As a result, the inventory for entry-level buyers is shrinking. The report highlights the fact that there are no single-family homes priced below \$250,000 in the Durango area. In 2014, the median home price rose by nine percent, establishing a new average of \$337,000. Analysts estimate that a household must earn \$72,400, per annum, to qualify for the purchase of the current, median-priced home. Despite increasing challenges, the community housing organizations continue to develop and

improve numerous financial assistance options for prospective home purchasers. The products vary from Federal Home Loan Bank forgivable loans to loan funds that provide down payment assistance or second mortgages. Nonetheless, the market favors higher income buyers, thus precluding low-income borrowers from participating.

### Opportunities for Commercial Lending

Most of La Plata County is designated as an Enterprise Zone. Consequently, there is an opportunity to provide loans for new businesses or expanded business ventures in the AA.

### Competition

Competition for both deposits and loans is strong. The latest FDIC Deposit Market Share Report, dated June 30, 2014, indicates there are nine financial institutions with 21 branches competing for approximately \$1.62 billion of insured deposits in the regional market. With the exception of FNBD, all institutions operate in areas outside of the AA and have access to loans and deposits in other markets. The competitor with the largest deposit market share is Wells Fargo, a mega-bank with a nation-wide presence. However, FNBD has the second largest deposit market share at nearly 26 percent. Five of the top competitors are regional banks, each with over \$1 billion in deposits outside the assessed marketplace. The competition for loans is stronger with numerous institutions that do not take deposits from the AA competing for strong credit worthy borrowers.

### Community Contacts

We contacted two CD organizations that operate in the Bank's AA. One of the organizations focuses on providing affordable housing for LMI individuals and families. The other is a community based development/financial intermediary organization. These contacts and the Bank identified the following CD needs:

- Affordable home mortgage loan products for LMI individuals, and
- Small business loans.

## **Conclusions with Respect to Performance Tests**

FNBD's performance under both the Lending Test and the Community Development Test is rated "Satisfactory".

## LENDING TEST

FNBD's performance under the Lending Test is rated "Satisfactory". The bank exceeds the standard for satisfactory performance in one of the tests and meets the standard in two of the tests. The fourth test, "Geographic Distribution", is not applicable since there are no low- or moderate-income CTs in the Bank's AA.

### Loan-to-Deposit Ratio

FNBD's loan-to-deposit (LTD) ratio is reasonable, taking in to account deposit and lending activities and given the Bank's size and assessment area credit needs. This meets the standard for satisfactory performance. For this evaluation, we compared FNBD to eight similarly situated banks. (These banks were selected based on asset size, business focus, and similar type of location.) FNBD's quarterly average LTD ratio for the previous 26 quarters ending December 31, 2014 was at 48 percent. The Bank's average LTD ratio is below the average LTD of 66 percent for all other institutions. The quarterly average LTD ratios for the eight similarly situated institutions range from 41 percent to 83 percent. In concluding on the reasonableness of the LTD ratio, we considered that the bank experienced a decline in loan balances and new loan demand in conjunction with an increase in deposit balances, which resulted in a significant decline in the Bank's LTD ratio.

### Lending in Assessment Area

FNBD originated a substantial majority of both the number and dollar volume of loans in its AA. This exceeds the standard for satisfactory performance. We calculated the percentage of both the number and dollar amount of loans in our original sample of 30 residential real estate loans and 28 commercial loans. The Bank originated 95 percent of the number and 94 percent of the dollar volume of its home mortgage and small business loans in its AA.

Lending in La Plata County, Colorado										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	27	96	1	4	28	1,384	99	12	1	1,396
Residential RE	28	93	2	7	30	4,900	93	382	7	5,292
Totals	55	<b>95</b>	3	5	58	6,284	<b>94</b>	394	6	6,688

Source: Loan originations from the evaluation period.

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

Overall, the distribution of borrowers reflects good penetration among individuals of different income levels, including low- and moderate-income (LMI) individuals and businesses of different sizes. This meets the standards for satisfactory performance. The Bank's lending reflects excellent penetration among individuals of different income levels and good penetration of loans to businesses of different sizes.

*Home Mortgage Loans*

As noted in the table below, the percentage of FNBD’s loans exceeds both the percentage of families that are low-income and the percentage of families that are moderate-income, which is excellent.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in La Plata County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Mortgage	15.78	17.86	15.75	21.43	19.26	21.43	49.21	39.29

*Source: 2010 U.S.Census Data, 2013 HUD adjusted median family income level, and loan sample*

*Commercial Loans*

The borrower distribution of loans to businesses reflects a reasonable penetration of loans to small businesses. As noted in the table below, FNBD’s distribution of loans to small businesses nearly meets the percentage of businesses in the AA with gross annual revenues of \$1 million or less.

<b>Borrower Distribution of Loans to Businesses in La Plata County, Colorado</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	% Total
% of AA Businesses	77.5	3.2	19.3	100
% of Bank Loans in AA by #	<b>74</b>	7	19	100
% of Bank Loans in AA by \$	<b>75</b>	4	21	100

*Source: 2013-2014 Loan sample; Dunn & Bradstreet data.*

In addition, FNBD participates in a flexible loan program, which was created to encourage small business lending. Through this program, FNBD funded 195 loans for a total amount of \$6.1 million to small businesses. Of the 195 loans, 28 loans were to small businesses owned by women or minorities and 123 loans were to small businesses located within a designated Enterprise Zone.

**Geographic Distribution of Loans**

We did not perform an analysis of FNBD’s geographic distribution of loans. The Bank’s AA includes only middle- and upper-income CTs. Consequently, an analysis of the FNBD’s geographic distribution of loans would not be meaningful.

**Responses to Complaints**

The Bank did not receive any complaints about its performance under the CRA during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

Overall, the Bank's CD performance in its AA is "Satisfactory". This is based on an adequate level of CD investments, loans, and services, which were responsive to identified CD needs in the Bank's AA.

### **Number and Amount of Community Development Loans**

FNBD originated six CD loans totaling \$2.5 million. This represents an adequate level of CD loans. The two largest loans, which total \$2 million, promote economic development by supporting permanent job creation for 49 LMI individuals. This borrower met the size requirements of the Small Business Administration's Small Business Investment Company program. One loan totaling \$195 thousand benefited a program that provides educational services to LMI children and two loans totaling \$114 thousand helped provide affordable housing to LMI.

### **Number and Amount of Qualified Investments**

FNBD made 44 qualified donations totaling \$172 thousand. This represents an adequate level of CD donations. The Bank did not make any investments in its AA during the review period. The majority of the donations, 82 percent, helped provide services to LMI; 15 percent helped promote economic development and three percent helped provide affordable housing to LMI.

### **Extent to Which the Bank Provides Community Development Services**

#### ***Retail Banking Services***

The distribution of the FNBD's branches and service delivery systems is reasonable. Branches and services are reasonably accessible to individuals of different income levels within the AA. The Bank has five branch locations in La Plata County. FNBD also operates four full-service ATMs located at the main office, Mercy Regional Medical Center, and Fort Lewis College and seven additional ATMs throughout the AA where customers can access balances or obtain cash. Branch hours are convenient to all individuals. The Bank has two store branches, one is located in the Albertson's grocery store and the other is located in the Wal-Mart store. These branches offer full service banking at extended hours; they are open 9:00 AM to 7:00 PM Monday through Friday and 9:00 AM to 4:00 PM on Saturdays. In addition, the Bank offers telephone banking, mobile banking, and online banker, which allow customers access to their accounts anytime, anywhere. FNBD also offers customers no or low-cost checking accounts, which are products that are favorable for LMI individuals. There is no service charge and no minimum account balance required for individuals who sign up for electronic statements, otherwise the customer pays a \$4 monthly charge. FNBD did not open or close any branches during the evaluation period.

### ***Community Development Services***

FNBD provided 1721 hours of qualified CD services in its AA. This represents a good level of CD services. Nearly 61 percent of the hours were provided to organizations that provide affordable housing to LMI and almost 39 percent were provided to organizations that provide services to LMI.

### **Responsiveness to Community Development Needs**

Overall, FNBD demonstrated adequate responsiveness to the CD needs in the Bank's AAs through its CD lending, investments, and services. The Bank focused its community development efforts on three identified needs in its AA. The majority of the Bank's CD loans focused on economic development, while the majority of the investments helped provided needed services to LMI individuals. In addition, the majority of FNBD's services was provided to organizations that provide affordable housing to LMI.

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (Bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the Bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the Bank's or FSA's lending performance.

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