



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**September 27, 2004**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Durango  
Charter Number 2637**

**259 West 9th Street  
Durango, Colorado 81302**

**Comptroller of the Currency  
Arizona & New Mexico  
9633 South 48th Street Suite 265  
Phoenix, Arizona 85044**

**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.**

First National Bank of Durango's (FNBD) lending performance reflects a satisfactory response to community credit needs. This is based on the following information.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of the number and dollar amount of loans are inside the bank's AA.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA, with mitigating circumstances.

## **DESCRIPTION OF INSTITUTION**

FNBD is a community bank in Durango, Colorado. FNBD had total assets of \$230 million as of December 31, 2002. As of that date, the bank operated out of the main office and two branches in Durango, Colorado. Deposit taking ATMs are located at the main office and branches. The bank has not closed any branches or deposit taking ATMs during the evaluation period. A new branch being opened in Bayfield, Colorado in 2004 is not included in this evaluation. FNBD is a member of First Bancorp of Durango, Inc., a one-bank holding company that owns 100% of FNBD. The bank is the holding company's primary asset. FNBD is affiliated with three other banks through common ownership: Citizens Bank in Pagosa Springs, Colorado; Mancos Valley Bank in Mancos, Colorado; and Farmers Savings Bank in Mineral Point, Wisconsin.

The bank's primary lending focus using both number and dollar amount of loan originations in the 2001-2002 evaluation period was in commercial and consumer loans. In terms of dollars outstanding as of December 31, 2002, commercial and commercial real estate loans represented 59% of the bank's total loan portfolio, consumer loans (including home equity lines of credit) represented 13%, and residential mortgage loans represented 27%. The bank's net loans to total assets ratio as of the same date was 73%. With a 31% market share as of the June 30, 2003 report, FNBD had the largest number of deposits in the AA.

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. The bank was previously rated satisfactory as of January 21, 1998.

## **DESCRIPTION OF ASSESSMENT AREA**

As of December 31, 2002, and using 1990 census data, FNBD designated all eight census tracts (CTs) in La Plata County, Colorado as its AA. These include the moderate-income CT 9711 where the bank's main office and two branches are located.

There are no low-income CTs in the AA. There is one moderate-income CT and one upper-income CT in Durango. The rest of the CTs are middle-income. The banks AA meets the legal requirements of the regulation and does not arbitrarily exclude low- to moderate-income (LMI) geographies.

The updated 2002 HUD statewide non-MSA median family income (MFI) was \$46,000. The percentage of households in the AA defined as low-income is 21%; moderate income is 16%; middle-income is 19%; and upper-income is 44%.

Competition for financial services is moderate with six other financial institutions in La Plata County. The June 30, 2003 FDIC Deposit Market Share report shows the financial institutions in the AA competed for \$702 million of insured deposits. FNB has the largest deposit market share, with 31% of the deposits in the market. Competitors include four other financial institutions with national and regional operations and two smaller community banks, which only operate inside the market.

The largest employment sectors in the AA are services, retail trade, state and local government, and construction. The area is primarily devoted to tourism and real estate development. Unemployment figures for La Plata County were benchmarked at 4.4% in 2002, up from a four-year low of 3.7% in 2001.

During this examination we made one community contact to discuss economic conditions and credit needs. The contact said banks in the area were generally responsive to meeting the needs of the community and that small business loans were the primary local credit need.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

The evaluation period for this CRA examination focuses on loan originations during 2001 and 2002. The cut-off date of December 31, 2002 is used because of the impact of the 2000 census changes that were effective in 2003. Loans made through 2002 are compared to 1990 census demographics, while loans made in 2003 and forward will need to be measured against demographic comparators from the 2000 census. Using only one census demographic period for this evaluation provides a more consistent analysis.

To determine the sample for this 2001-2002 period, we looked at both the dollar amount of loans and the number of loans originated. An analysis of the originations showed FNBD's primary products to be commercial and consumer loans, which is representative of the bank's current business strategy.

Loan Originations for Evaluation Period as a % of total originations	Percentage of Dollar Amount of Loans	Percent of Number of Loans
Business Loan Originations	64%	23%
Consumer Loan Originations	19%	64%
<b>Total Primary Products</b>	82%	88%

*Source: Loan Originations for evaluation period*

After identifying the two primary products, we took a random sample of 20 business loans and 20 consumer loans to determine the ratio of loans inside the AA. To evaluate the borrower distribution of loans, loans outside the AA were discarded and additional loans were then selected to complete the samples. Based on this information, the bank's CRA performance in meeting the credit needs of the community is satisfactory.

### **Loan-to-Deposit Ratio**

The bank's average quarterly LTD ratio of 78% during the evaluation period is reasonable given the bank's size, financial condition, and AA credit needs. It meets the standard for satisfactory performance.

Uniform Bank Performance Reports, from the third quarter 1999 through the fourth quarter 2002, were used to compare FNBD with five of the other banks that also do business in the AA. The average quarterly LTD ratio of the other financial institutions ranges from 57% - 98%, with an average for all five banks of 75%. LTD ratios were not available for the branch of a large nation-wide bank also in the AA.

### **Lending in Assessment Area**

A substantial majority of both the number (90%) and dollar amount (98%) of loans are inside the AA. This exceeds the standard for satisfactory performance under this factor.

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

Given the AA demographics, the combined distribution of business and consumer loans originated reflects a reasonable penetration. Our analysis included 20 commercial and 20 consumer loans originated in 2001 and 2002 inside the AA.

#### *Business Loans*

The bank's lending activity to businesses of different sizes is reasonable. This table measures the bank's performance in lending to small businesses, defined as businesses with gross annual revenues of \$1 million or less. The percentage of loans to small businesses exceeds the business demographic by the percent of number and dollar amount of loans in the sample.

Borrower Distribution of Loans to Businesses in La Plata County AA		
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000
% of AA Businesses*	<b>74%</b>	<b>4%</b>
% of Bank Loans in AA by #	75%	20%
% of Bank Loans in AA by \$	78%	22%

Source: Loan sample; Dunn & Bradstreet data. \*22% of AA businesses did not report revenue data.

The business loan sample also contains 5% of the number of loans where the bank did not collect any income data, so the percentages do not add up to 100%. This loan was to a tax exempt educational institution for a vehicle, which represented less than 1% of the dollar amount of loans in the sample, so this percentage did add up to 100%.

### Consumer Loans

The bank's consumer lending activity to borrowers of different incomes is reasonable. This table focuses on the measure of the bank's performance in lending to LMI borrowers. Low-income is defined as 50% or less of the HUD updated MFI for the area in which the borrower resides. Moderate-income is defined as between 50-80% of the HUD updated MFI.

Borrower Distribution of Consumer Loans in La Plata AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans
Consumer Loans	<b>21%</b>	<b>15%</b>	<b>16%</b>	<b>20%</b>	19%	35%	44%	30%

Source: loan sample; U.S. Census data.

For low-income borrowers, the sample of the bank's consumer loans does not meet the area demographic in the number of loans extended. One partially mitigating factor is that 15% of the households in the bank's AA are classified as having income below poverty level. Generally households below the poverty level are not able to qualify for even small loans. For moderate-income borrowers, the bank exceeds the moderate-income demographic in the number of loans extended.

### Geographic Distribution of Loans

The geographic distribution of both business and consumer loans is considered reasonable overall. The tables below reflect poor dispersion in the one moderate-income CT in the AA. However, there are a couple of factors that mitigate this performance.

- The classification of the CT as moderate-income is based on the 1990 census. The loan sample on which the analysis is based comes from loans originated during 2001-2002. As noted earlier in the report, census data for 2000 was not available until 2003, so the 2001-2002 loans are still tested against the older 1990 demographic information. The composition of the CT has changed over time, and by the 2000 census, it was no longer a

moderate-income CT, but a middle-income CT. This would make the geographic analysis of loan dispersion in this CT less critical for this evaluation, and moot for the future and any corrective actions.

- Management was confident that their performance in loans in this CT was reasonable. It is the CT where their main office and branches are. Our analysis is based on small samples, as is standard in the small bank CRA analysis. Since the bank is transitioning to large bank status, the loan information was available digitally, so we analyzed the overall portfolio for this factor. The results are discussed in the sections below each table.

*Business Loans*

Geographic Distribution of Loans to Businesses in La Plata County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	0%	NA	<b>36%</b>	<b>15%</b>	59%	75%	5%	10%

*Source: Loan sample; Dunn & Bradstreet data.*

Three of the 20 loans, or 15% of the business loan sample were in the moderate-income tract, compared to the demographic of 36% of the business in the AA. However, when we calculated the percentage for the whole commercial portfolio, 34% of the loans to businesses were found to be in the moderate-income CT. This reflects a reasonable dispersion of loans.

*Consumer Loans*

Geographic Distribution of Consumer Loans in La Plata County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans
Consumer Loans	0%	NA	<b>12%</b>	<b>5%</b>	76%	85%	12%	10%

*Source: loan sample; U.S. Census Data*

Only one of the 20 loans, or 5% of the consumer loan sample, was in the moderate-income tract compared to the demographic of 12% of households in the AA. We calculated the percentage for all consumer purpose loans, and there was a slight increase to 7% of loans to consumers in this moderate-income CT. We then analyzed the composition of the consumer loan portfolio and additional data to explain why the bank’s percentage was still relatively low.

The bank's consumer originations for 2001-2002 totaled \$35 million, and \$24 million (or 68%) of those consumer loans were Home Equity Lines of Credit (HELC). Only home owners qualify for HELC loans, not renters. The demographics of the moderate-income CT show that only 36% of the houses were owner occupied units in 1990, down to only 32% by the 2000 census. Therefore, the opportunities for the bank to make the type of consumer loan that constitutes the largest amount of their consumer lending niche is limited in this CT, and the bank's performance can be considered reasonable.

Finally, the bank's performance in making qualified Community Development Loans is also considered to support its overall rating. During the evaluation period since the last CRA examination, the bank made three loans totaling over \$5 million for affordable housing. Two were multi-family housing projects (one inside the AA, and one outside the AA in an adjacent county) and one was a mobile home park in a moderate-income CT.

### **Qualified Investments and Community Development Services**

The bank was not able to produce any qualified investments during the evaluation period. Their Community Development Services are appropriate. Their office locations make their products and services accessible throughout the AA. The bank also provides loaned executives for educational purposes to enhance credit knowledge in the community, and has also provided scholarships for others to take part in these financial educational opportunities.

### **Responses to Complaints**

FNBD has not received any CRA related complaints since our last examination.

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

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