



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 26, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Lake City & Creede
Charter Number 17801**

**231 Silver Street
Lake City, Colorado 81235**

**Comptroller of the Currency
Arizona & New Mexico
9633 South 48th Street Suite 265
Phoenix, AZ 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 Lake City & Creede's (FNBLC&C) 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 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

FNBLC&C is a community bank in Lake City, Colorado with total assets of \$29 million as of December 31, 2002. The bank operates out of the main office in Lake City and a branch in Creede, Colorado. There are no deposit taking ATMs outside of these two locations. The bank has not closed any branches or deposit taking ATMs during the evaluation period. In February 2004, FNBLC&C became a member of Pine River Bank Corp., a two-bank holding company organized in Bayfield, Colorado that owns 100% of FNBLC&C. The other bank is Pine River Valley Bank in Bayfield, Colorado. The banks are the holding company's primary assets.

The bank's primary lending focus in number and dollar amount of loan originations in 2001-2002 is in commercial and consumer loans. In terms of dollars outstanding as of December 31, 2002, commercial and commercial real estate loans represent 44%, consumer loans represent 7%, and residential mortgage loans represent 38% of the bank's total loan portfolio. The bank's net loans to total assets ratio as of the same date was 65%. As of the June 30, 2003 report, FNBLC&C was the largest financial institution in the AA based on a 35% deposit market share.

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 September 8, 1998.

DESCRIPTION OF ASSESSMENT AREA

As of December 31, 2002, and using 1990 census data, FNBLC&C had designated four census tracts (CTs) in southwestern Colorado as its AA. These include Hinsdale County, Mineral County, and two CTs in Rio Grande County. The bank's main office is located in Hinsdale County, and the Creede Branch is in Mineral County. The two CTs in Rio Grande County include the towns of Del Norte and South Fork. It is important for the context of this report that the moderate income CT comprising the town of Del Norte is included in the AA because it

surrounds the South Fork CT, where the bank lends. Geographic limitations make it difficult to reasonably serve the Del Norte CT.

There are no low- or upper-income CTs in the AA. Hinsdale County, a middle income CT, is the least populated county in Colorado, with about 95% of the land designated as public land, and much of that is wilderness area. Mineral County, a moderate-income CT is also sparsely populated. Rio Grande County is more populated, but the largest portion of the population is in the two eastern CT's, which are not part of the bank's AA. The rural CT of Rio Grande County including the town of South Fork is middle-income, and the town of Del Norte is moderate-income. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- to moderate-income (LMI) geographies.

The 2002 HUD updated statewide non-MSA median family income (MFI) was \$46,000. The percentage of households in the AA defined as low-income is 29%; moderate income is 19%; middle-income is 23%; and upper-income is 29%.

Competition for financial services is moderate. There are no other financial institutions in Lake City, and only one other financial institution in Creede, but the competition is measured throughout all four CTs of the AA, whether FNBLC&C has a physical presence or not. The June 30, 2003 FDIC Deposit Market Share report shows five financial institutions in the AA competed for just \$79 million of insured deposits. FNBLC&C has the largest deposit market share, with 35% of the deposits in the market. The nature of the competition includes only one other financial institution with no offices outside the market. This competitor has the third largest deposit market share, with 25% of the total deposits. Another much larger institution holds second place with 32% of the deposits in the market from just three of its 11 offices. The remaining eight offices are outside the AA. The other two competitors maintain one office each inside the market, with nominal market shares, but they both have a significantly larger number of offices outside the market where they can generate additional deposits and loans, including one regional bank with over \$2 billion in assets.

The largest local employment sectors are local government, and accommodation and food services. Hinsdale and Mineral Counties have the lowest and third lowest average annual wages in the state, respectively. This is because the area is primarily devoted to tourism, and the service wages are low. Rio Grande County has a slightly more diversified economy with the addition of agriculture and forestry support, and retail trade. Unemployment figures for Hinsdale County were benchmarked at 2.7% in 2002, up from a five year low of 1.7% in 2000. Mineral County figures have improved at 2.4% in 2002, down from a five year high of 4.6% in 1998. Rio Grande County unemployment figures are the worst of the three at 6.6% in 2002, but that is also down from a five year high of 9% in 1998. The Rio Grande County figures are also not as meaningful in this context, since the bank's AA only covers the eastern portion of that county, and we have no way to separate the unemployment statistics by CT within the county.

During this examination we made one community contact to discuss economic conditions and credit needs. We selected a contact that would cover the credit needs in the two moderate-income CTs (Mineral County and the town of Del Norte). The contact said banks in the area were generally responsive to meeting the needs of the community. The need for small business loans was indicated as the primary credit need. However, the contact also stated that in recent

years the organization has had more requests for "credit repair" services than for start-up loans, which is an indication of the poor economy in the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination focuses on loan originations during 2001 and 2002. The December 31, 2002, cut-off date is used because of the impact of the Census 2000 changes that were effective in 2003. Loans made through 2002 are compared to 1990 census demographics, while loans made in 2003 and forward are 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 evaluation of the originations showed FNBLC&C's primary products to be commercial and consumer loans, which is representative of the bank's current business strategy.

Loan Originations for Evaluation Period	Percentage of Dollar Amount of Loans	Percentage of Number of Loans
Business Loan Originations as a % of Total Originations	42%	30%
Consumer Loan Originations as a % of Total Originations	29%	53%
Total Primary Products as a % of Total Originations	71%	83%

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 geographic and borrower distribution of loans, loans outside the AA were discarded and additional loans were then selected to fill in the samples of 20 business and 20 consumer loans. Based on these samples, the bank's CRA performance in meeting the credit needs of the community is Satisfactory, as supported below.

Loan-to-Deposit Ratio

The bank's average quarterly LTD ratio of 75% 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 first quarter 1999 through the fourth quarter 2002, were used to compare FNBLC&C with three other banks that also do business in the AA. In addition, the Savings and Loan (S&L) Performance and Condition Ratios reports from the third quarter 2000 through the fourth quarter 2002 were used to compare FNBLC&C with a S&L that does business in the AA. Earlier time periods were not available.

The average quarterly LTD ratio of the other financial institutions ranges from 91% - 101%, making FNBLC&C the lowest performer of the group. There are mitigating reasons why the

bank's 75% LTD ratio is still considered reasonable.

- The bank's main office is located in Lake City. This remote community is dependent on a highly seasonal tourist trade, so year-round loan demand is low. In addition, for both Lake City and Creede, winter weather and snow in the passes make travel into the area difficult. Some of the businesses close down entirely for eight months of the year. Although Del Norte is part of the bank's AA, the bank has no branch there, which makes it difficult for a year-round business to bank with FNBLC&C.
- Three of the four other financial institutions have multiple offices outside the market, which provides access to many other sources for both loans and deposits. The only other financial institution with no offices outside the AA has one office in Del Norte, a larger, more economically diversified and year-round community.
- There are no true comparables for this bank, based on location and seasonality. FNBLC&C is the only financial institution in Hinsdale County. Only one other competitor bank has a branch in Mineral County.

Lending in Assessment Area

A substantial majority of both the number (88%) and dollar amount (93%) 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 demographics of the AA, 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 excellent. 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 is near the percent of dollar amount of loans in the sample.

Borrower Distribution of Loans to Businesses in Hinsdale, Mineral and a portion of Rio Grande Counties		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	71%	2%
% of Bank Loans in AA by #	85%	15%
% of Bank Loans in AA by \$	68%	32%

Source: Loan sample; Dunn and Bradstreet data. * 27% of AA businesses did not report revenue data

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 less than 50% 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 Hinsdale, Mineral and a portion of Rio Grande Counties								
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	29%	20%	19%	30%	23%	10%	29%	25%

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 mitigating factor is that a high 21% of the households in the bank’s AA are classified as not only low-income, but 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. The consumer loan sample also contains 15% of the number of loans where the bank did not collect any income data. These loans are secured by cash deposits at the bank. Generally, borrowers who have been able to accumulate such cash reserves are middle- and upper-income.

Geographic Distribution of Loans

The geographic distribution of the bank’s business and consumer loans within the AA is reasonable, with mitigating circumstances. There are no gaps or unexplained areas of significantly low penetration in the bank’s lending patterns. Our analysis included 20 commercial and 20 consumer loans originated in 2001 and 2002 inside the AA.

Business Loans

This table measures the bank’s performance in lending to businesses in different income tracts. The bank’s business lending activity in the moderate-income tract is reasonable with mitigating circumstances. Although the percentage of loans in the sample does not meet the demographic percentage of businesses in moderate-income CTs, it is fairly close. There are also mitigating reasons why the demographic is not met. There are only 633 businesses in the AA. A full 20%, or 133 businesses are in the moderate-income CT town of Del Norte, which is geographically most distant from the main office and branch. The bank has no physical presence in Del Norte, and three other financial institutions do. As noted under Performance Context, competition and

geography makes it harder for FNBLC&C to penetrate this particular moderate-income tract.

Geographic Distribution of Loans to Businesses in Hinsdale, Mineral and portions of Rio Grande Counties								
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
	0%	0%	36%	25%	64%	75%	0%	0%

Source: loan sample; Dunn and Bradstreet data.

Consumer Loans

This table measures the bank's performance in lending to consumers in different income tracts. The bank's consumer lending activity in moderate-income tracts is poor. The percentage of loans in the consumer sample does not come close to meeting the demographic percentage of households in moderate-income CTs. As with the business loans, some of the same mitigating reasons apply. The population of the whole AA is only 4,538. The bank's offices are located in the sparsely populated Hinsdale and Mineral Counties. The moderate-income CT town of Del Norte, which is geographically most distant from the main office and branch, has a population of 2,047, or 45% of the AA total. It is difficult for the bank to penetrate this large segment of the population when it does not have a physical presence and three other competing financial institutions do.

Geographic Distribution of Consumer Loans in Hinsdale, Mineral and portions of Rio Grande Counties								
Census Tract 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	0%	0%	56%	35%	44%	65%	0%	0%

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

Gaps or Low Penetration

As noted above, the gaps or areas of low penetration in the bank's lending patterns can be explained by geography and competition.

Responses to Complaints

FNBLC&C has not received any CRA related complaints since our last examination.

Fair Lending or Other Illegal Credit Practices Review

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