



**Small Bank**

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Comptroller of the Currency  
Administrator of National Banks

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**Public Disclosure**

September 17, 2007

**Community Reinvestment Act  
Performance Evaluation**

**First Colorado National Bank  
Charter Number 6671**

**Second and Grand Avenue  
Paonia, Colorado 81428**

**Office of the Comptroller of the Currency  
Denver Field Office  
1225 17<sup>th</sup> 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.**

## GENERAL INFORMATION

**Institution's Community Reinvestment Act (CRA) Rating:** This institution is rated satisfactory.

A satisfactory rating is appropriate within the bank's designated assessment area (AA) given the bank's demonstrated ability to meet the credit needs of its community. Specifically:

- The bank has a strong pattern of lending to small businesses within the assessment area;
- The majority of loans made by the bank by number of loans are originated within the bank's AA. However, the majority of loans made by dollar volume are outside the assessment area due to impediments on the bank's ability to lend during the review period;
- The bank's average loan-to-deposit ratio is adequate given area competition and credit needs of the community.

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

## DESCRIPTION OF INSTITUTION

First Colorado National Bank (FCNB), formerly First National Bank of Paonia (FNBP), is a \$33 million dollar institution headquartered in Paonia, Colorado. Paonia is located in the North Fork River Valley on the Western Slope of the Colorado Rocky Mountains, 150 miles southwest of Denver. FCNB is wholly owned by First Colorado Financial Corp., a one-bank holding company located in Paonia, Colorado. FCNB does not have any related organizations or operating subsidiaries.

The bank operates two full-service facilities. The main office is located in Paonia, Colorado, in Delta County. The branch is located in the neighboring community of Delta, Colorado, also in Delta County. Both locations have drive-up facilities and non-deposit taking ATMs. The bank does not operate any stand-alone ATMs.

The First National Bank of Paonia became First Colorado National Bank with an ownership and management change on April 27, 2007. The new owners of the bank purchased FNBP in a troubled condition with respect to lending and CRA. Under the previous ownership and management team, FNBP became involved in unsafe and unsound lending practices amongst other items that led to a Formal Agreement issued

by this Agency on November 20, 2003. The Agreement was replaced by a Consent Order issued by this Agency on November 18, 2004. The Consent Order was terminated on May 10, 2007. Both documents contained guidelines regarding the bank's ability to lend. As a partial result of the requirements of these enforcement actions, FNBP's loan portfolio decreased in size from \$30 million to \$10 million between the period of June 2001 and April 2007.

The new board and management team are committed to improving the bank's lending performance within the assessment area. FCNB currently offers a variety of credit products. The primary loan product by dollar volume is commercial loans, which include construction, commercial real estate and commercial and industrial loans. These loans represent 52 percent of total loans. Other loans offered by the bank include 1-4 family residential loans at 24 percent of total loans, loans to individuals at 14 percent, agricultural loans at 4 percent, and loans secured by farm land at 3 percent.

Our rating of the bank's CRA performance is based on an analysis of commercial loans. No other product was selected for analysis due to an insufficient volume of loans originated from which to identify a valid sample. An analysis of other loan products would not have resulted in meaningful conclusions.

Net loans currently represent 37.5 percent of total assets.

FNBC received a Satisfactory rating at the last CRA examination dated May 7, 2001.

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

## **DESCRIPTION OF DELTA COUNTY ASSESSMENT AREA**

Management has designated Delta County as their only assessment area (AA). Delta County is situated in a mountain valley in the west central part of the State of Colorado. Delta County is largely rural and is not located in a metropolitan statistical area (MSA). Based on 2000 U.S. Census data, this AA is comprised of seven census tracts of which 100 percent are designated as middle income. The Department of Housing and Urban Development's 2006 updated non-MSA median-family income for this AA is \$51,500. Based on 2000 U.S. Census data, there are 7,943 families residing within the AA of which 24 percent are deemed low-income and 24 percent are deemed moderate-income. Income designations are determined based on annual income as a percentage of the non-MSA median-family income.

The local economy is stable and dependent on tourism, coal mining, fruit production and some manufacturing. Major employers include Delta County government, the county school district, the county hospital, Chaco Sandal, Inc., and area coal mines. Retail and service industry jobs also provide significant employment in the area.

FCNB has competition from eight financial institutions in Delta County. This includes state banks, and branches where the main bank is located in another county. Of these institutions, three are similar in size and product offerings to FCNB. Deposit market share as of June 30, 2007 indicates that FCNB ranks 7<sup>th</sup> among area financial institutions with a total market share of 7 percent.

We made one community contact at this examination. We spoke with an individual who served as the former Mayor of Paonia and is currently a representative of the city council and fire chief. He stated that the economy of Paonia is relatively stable due to the recent re-opening of a coal mine as well as employment by Chaco, Inc., a large manufacturing facility located in Paonia, Colorado. The contact identified the primary credit need of the community as affordable housing. He indicated that a recent inflow of more affluent retirees has increased property values and taxes.

Delta County has a significant population of retired individuals. Based on 2000 U.S. Census data, 23 percent of the total households are retired. In addition to increased housing prices, the recent inflow of retirees has increased the cost of living without a corresponding increase in income. Census data indicates that 12 percent of households report income below the poverty level and 38 percent of households are collecting Social Security.

The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

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

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

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

Since our last CRA examination in June 2001, the bank's loan-to-deposit ratio has decreased significantly. The bank was impacted by financial difficulties starting in 2003 under previous ownership and former management. The loan-to-deposit ratio was 86 percent on December 31, 2001. It declined to 44 percent by December 31, 2004 and remained near that level through June 30, 2007 when it was 46 percent. The average quarterly loan-to-deposit ratio over the review period is 65 percent. The loan-to-deposit ratio of similarly situated banks over the same time period ranged between 65 percent and 84 percent. Similarly situated banks are those banks with similar business lines operating within the same geography.

FCNB's loan-to-deposit ratio is currently the lowest compared to similarly situated banks. This is a direct result of lending difficulties related to the bank's condition associated with the prior ownership and former management of FNBP. The new owners are committed to improving the loan-to-deposit ratio.

### Lending in Assessment Area

The bank's performance in the Delta AA is adequate. As shown in Table 1, we reviewed a sample of 33 commercial loans originated between August 2001 and September 2007. Of the 33 loans reviewed, 70 percent by number and 29 percent by dollar volume were originated within the AA. By number, the bank is originating satisfactory level of loans within the AA. However, by dollar volume, performance is poor.

Under previous ownership, FNBP exhibited numerous deficiencies that affected the bank's lending ability and adversely impacted its reputation with the community. This resulted in FNBP losing a significant volume of loans in the community. In response, previous ownership made several large dollar loans outside of the AA which negatively impacted CRA performance. These loans were made as part of a strategy to improve the bank's earnings performance in the short term.

New management has committed to improve their relationship with the local community and to improve their lending practices in the assessment area. Management and the lending staff have already started outreach efforts at community events to establish new business relationships and new lending opportunities.

**Table 1 - Lending in Delta AA**

Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
<b>Commercial</b>	23	70%	10	30%	33	2,037	24 %	6,447	76%	8,484

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

The distribution of commercial loans originated throughout the Delta AA indicates satisfactory performance in lending to businesses of different sizes. Of the 23 commercial loans sampled that were originated within the AA, 95 percent, by number, and 98 percent, by dollar volume, were originated to small businesses. This is comparable to area demographics which indicate that 97 percent of all businesses for which revenue information was available were small businesses. Small businesses are those which report revenues of less than \$1 million. Further, of the loans sampled, 70

percent, by number, and 42 percent, by dollar volume, were originated to very small businesses with revenues less than \$250,000. This indicates a willingness to support very small businesses.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Delta County</b>			
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Total</b>
% of AA Businesses (#)	97%	3%	100%
% of Bank Loans in AA by #	95%	4%	100%
% of Bank Loans in AA by \$	98%	2%	100%

### **Geographic Distribution of Loans**

We did not perform a geographic distribution analysis. An analysis would not have been meaningful as all census tracts in Delta County are designated as middle income.

### **Responses to Complaints**

FCNB has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

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

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