



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

July 30, 2012

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Durango  
Charter Number 2637

259 West 9th Street  
Durango, Colorado 81301

Office of the Comptroller of the Currency

Phoenix Field Office  
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.**

**The Lending Test is rated: Satisfactory**

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

The overall performance of The First National Bank of Durango (FNBD) is Satisfactory. Primary factors contributing to the bank's rating follow.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) needs.
- A substantial majority of the bank's loans are made inside the AA.
- Borrower distribution of loans reflects reasonable penetration given the demographics of the AA.
- Community development (CD) activities, including CD lending, services, and qualified investments, demonstrate adequate responsiveness to needs in the bank's AA.

**Scope of Examination**

The examination of FNBD consisted of a full-scope review of the bank's single AA. An Intermediate Small Bank examination consists of two tests. The lending test covered January 2009, through December 2011, referred to in this report as the evaluation period. The CD test includes all activities since the last Community Reinvestment Act (CRA) examination as of October 20, 2008, through the start date of this examination. We identified commercial and residential real estate loans as the bank's primary products based on the number and dollar amount of loans originated in the evaluation period. There were no affiliate loans to review.

<b>Loan Originations for Evaluation Period</b>	<b>% of Dollar Amount of Loans</b>	<b>% of Number of Loans</b>
Commercial Loan Originations as a % of Total Originations	25%	38%
Residential RE Loan Originations as a % of Total Originations	31%	49%

*Source: Loan originations for the evaluation period.*

We sampled 20 loans from each of the bank's primary loan products. The data from the original commercial and residential real estate loan samples was used to calculate the inside/outside AA ratio. To perform other lending tests, we eliminated loans outside the AA from the original sample and added enough additional loans to provide a sample of 20 commercial and 20 residential real estate loans inside the AA. The sample is representative of the bank's business strategy since the last examination.

## Description of Institution

FNBD is a community bank headquartered in Durango, Colorado, a non-metropolitan area in the southwestern part of the state. As of March 31, 2012, FNBD had \$428.3 million in total assets and net total loans of \$151.8 million, or 35 percent of total assets. FNBD operates a main office, and four branches all located in La Plata County. It operates three deposit-taking ATMs located at the main office, Fort Lewis College, and Mercy Regional Medical Center. The bank has not opened or closed any branch offices during the evaluation period. The bank is a member of a two-bank holding company, First Bancorp of Durango, Inc., which owns 100 percent of FNBD. The other bank is Grants State Bank in Grants, New Mexico. There are no affiliates.

FNBD's strategic focus is to continue supporting the economic growth and development of La Plata County by providing competitive banking solutions for commercial and consumer customers. The bank's primary lending focus is small business and mortgage loans. Mortgage loans are subsequently sold on the secondary market.

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 at the October 20, 2008 intermediate small bank CRA examination. Additional details about the bank may be found in its Public File located at the main office.

## Description of La Plata County Assessment Area

FNBD has designated all 10 census tracts (CT) in La Plata County, Colorado as its AA. All bank branches, ATMs, and surrounding geographies are located in La Plata County. The AA includes the towns of Durango, Bayfield, Ignacio, and portions of the Southern Ute and Ute Mountain Indian Reservations. The entire area is a non-metropolitan statistical area. Seven CTs in the county are middle-, two are upper-income, and one CT has been designated as unknown. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies.

The economy of La Plata County is based in services and government. Major employers include the Southern Ute Indian Tribe, Mercy Hospital, and various governmental employers including the local school district and college, and federal, state, county, and local government. Tourism also plays a large part in the local economy. Tourism supports additional employment centered in the accommodation and food services industry and retail trade. Unemployment in the AA has fluctuated during the examination period from 6.02 percent in 2009 to 7.11 percent in 2010, and down to 6.78 percent in 2011. This is due in part to the economic downturn experienced across the nation. The La Plata County economy is also seasonal in nature, so some sectors of the local economy vary during the year as part of its normal cycle, and unemployment is generally higher during the winter than the summer. Additional demographic information from 2011 can be reviewed in the table below.

Demographic Information for the FNBD AA						
	#	% Low	% Moderate	% Middle	% Upper	% Unknown
Geographies (Census Tracts)	10	0%	0%	70%	20%	10%
Population by Geography	43,941	N/A	N/A	79%	21%	0%
Owner-Occupied Housing by Geography	20,765	N/A	N/A	81%	19%	0%
Businesses by Geography	9,055	N/A	N/A	86%	14%	0%
Farms by Geography	371	N/A	N/A	89%	11%	0%
Family Distribution by Income Level	10,945	15%	17%	23%	45%	N/A
Household Distribution by Income Level	17,346	22%	17%	19%	42%	N/A
Census Median Family Income (MFI)		\$44,319	Median Housing Value		\$176,989	
HUD- Adjusted MFI: 2009		\$56,400	Families Below the Poverty Level		6.65%	
HUD- Adjusted MFI: 2010		\$56,400	Unemployment Rate		6.78%	
HUD- Adjusted MFI: 2011		\$60,200				

Source: 2000 U.S. Census Data

Competition for financial services is strong. The annual FDIC Deposit Market Share Report for June 30, 2011, shows nine financial institutions competed for almost \$1.3 billion of insured deposits located in the market. The nature of the competition includes eight banks with 15 branches in the market area representing a variety of nation-wide, regional, and local banks (not including credit unions and non-bank financial institutions) comprising over 72 percent of the deposit market share. However, since the FDIC report date, one local bank was bought by an out-of-state bank, and one regional bank failed and its assets were acquired by an out-of-state bank. FNBD has the largest single market share at almost 28 percent. All of the other competitors have access to other loans and deposits outside the local market, and five of them have a significant presence in locations outside La Plata County.

There are no similarly situated banks in the area, as FNBD does not have a presence outside of the local market. One competitor is a mega-bank with a nation-wide presence. Four are regional banks, each with over \$1 billion in deposits outside this marketplace. The other three are community banks smaller than FNBD. Some of these institutions were used to evaluate the bank's LTD ratio.

To gather information that is more current on the nature of the economic conditions and potential community development opportunities in the AA, we contacted a local community leader during this examination. The contact was with an agency that provides assistance and financial lending to small businesses in southwestern Colorado. The contact stated that various financial institutions in the area are generally meeting small business credit needs. In addition, local financial institutions also support the contact's agency, providing financial expertise on the board and loan committee. The contact identified an area of opportunity as lending to start-up and small businesses. Finally, the contact reported that local economic conditions have been adversely affected by the economic slow-down, especially in the construction industry.

Maps and additional information about the bank's AA may be found in the Public File,

maintained at the main office of the bank.

## Conclusions with Respect to Performance Tests

The bank’s overall CRA performance is *Satisfactory*. This is supported by separate conclusions for the lending test and the community development test.

### LENDING TEST

The bank’s performance under the lending test is rated satisfactory.

#### Loan-to-Deposit Ratio

FNBD’s LTD ratio is reasonable given the bank’s size, financial condition, and credit needs of the AA. As of March 31, 2012, the bank’s quarterly average LTD for the last 15 quarters was compared with other financial institutions operating within the AA. The results are summarized below.

Bank	Average Quarterly Loan-to-Deposit Ratio
<b>First National Bank of Durango</b>	<b>60%</b>
Average of 4 other banks in the AA	78%
Highest bank in range	85%
Lowest bank in range	71%

*Source: Uniform Bank Performance Report.*

There are no true comparables for FNBD in its AA. The competitors used in the comparison above include a mega-bank over \$1 trillion in size and two regional banks, each over \$2 billion in size. These three banks all have access to substantially more markets for loans and deposits outside the AA. Unlike these competitors, FNBD does not have any presence outside the AA.

Although the bank’s LTD ratio is lower than the average of competitors, it does not take into consideration the residential real estate loans that are sold on the secondary market. From January 1, 2009, through March 31, 2012, the bank sold loans totaling \$126 million, representing 545 loans, on the secondary market.

#### Lending in Assessment Area

We calculated the percentage of both the number and dollar amount of loans in our original sample of 20 commercial loans and 20 residential real estate loans made inside the bank’s AA. With a combined 92 percent of the number and 83 percent of the dollar amount of loans, FNBD’s inside/outside ratio reflects a substantial majority of its primary loan products originated within the AA.

Lending in La Plata County, Colorado										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	18	90	2	10	20	4,076	73	1,489	27	5,565
Residential RE	19	95	1	5	20	4,203	95	225	5	4,428
Totals	37	<b>92</b>	3	8	40	8,279	<b>83</b>	1,714	17	9,993

Source: Loan originations from the evaluation period.

We replaced two loans for commercial and one loan for residential real estate made outside the bank’s AA to arrive at a new sample of 20 loans for both primary loan products. With these new samples, we analyzed the following tests for Borrower and Geographic Distribution.

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

The borrower distribution of commercial and residential real estate loans originated in the AA reflects reasonable penetration among individuals of different income levels and businesses of different sizes. We relied more heavily on the borrower distribution of business loans, as these represent the focus of the bank’s business strategy.

*Commercial Loans*

FNBD meets the standard for loans to borrowers with gross annual revenues (GAR) of \$1 million or less. Although the table below shows the bank’s performance slightly lower than the area business demographics, our sample included two business purpose loans to individuals who, by definition, do not have GAR. In addition, there were three business purpose loans where the GAR was not used in the credit decision/underwriting process. In the table, these five loans are shown as “unavailable/unknown.” However, four of these loans ranged in size from approximately \$2 thousand to \$36 thousand. Using the loan size as a proxy for business size, these could be considered small business loans. Given the credit needs of the area, the bank has reasonable penetration of its AA.

Borrower Distribution of Loans to Businesses in La Plata County, Colorado				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	% Total
% of AA Businesses	74	3	23	100
% of Bank Loans in AA by #	<b>65</b>	10	25	100
% of Bank Loans in AA by \$	<b>79</b>	6	15	100

Source: Loan sample; Dunn & Bradstreet data.

*Residential Real Estate Loans*

The distribution of residential real estate loans to LMI borrowers reflects poor penetration among borrowers of different income levels. The bank has not made any loans to low-income borrowers and only 5 percent of the number of loans made is to moderate-income borrowers. As such, the bank does not meet the standard. Some of

this can be attributed to the fact that the median housing value is very high at \$176,989, making it harder for these families to qualify for residential real estate loans. In addition, 7 percent of AA families live below the poverty level.

<b>Borrower Distribution of Residential Real Estate Loans in La Plata County, Colorado</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
Residential RE	15	<b>0</b>	17	<b>5</b>	23	<b>20</b>	45	<b>75</b>

*Source: Loan sample and U.S. Census data.*

### **Geographic Distribution of Loans**

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

### **Responses to Complaints**

We reviewed the bank’s public file for complaints, and complaints reported to the OCC through the Customer Assistance Group. There were no complaints received by the bank or the OCC relating to the bank’s CRA performance during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

FNBD demonstrates adequate responsiveness to CD needs in the AA considering opportunities and the bank’s capacity and business strategy. Bank management identified small business lending and affordable housing as the two primary needs of La Plata County, while the community contact identified lending to new businesses as a primary need. A number of the CD loans, CD services, and qualified investments discussed in the following sections benefit small business or promote affordable housing. Due to the lack of low- or moderate-income CTs in the AA and the specialized market of start-up lending, the opportunity to make CD loans to new businesses is not great.

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

CD lending demonstrates adequate responsiveness to needs in the AA. Since the last CRA examination, FNBD funded \$9.2 million in CD loans that meet both the size and purpose test. This total includes four loans to four different borrowers. The largest loan, which originated for nearly \$8.9 million, promotes economic development by supporting permanent job creation or retention for 96 LMI individuals. This borrower met the size requirements of the Small Business Administration’s Small Business Investment Company program. The remaining three loans had either community services or affordable housing as a primary purpose.

FNBD also participates in two loan programs which were designed to promote small business lending. More documentation is necessary to determine whether a number of the loans in these programs meet CD requirements.

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

Qualified investments demonstrate adequate responsiveness to needs in the AA. Since the last examination, FNBD made \$139.3 thousand in qualified investments to 17 organizations. Each of the qualified investments was in the form of a grant and the overwhelming majority of investments reflect ongoing support to these AA organizations. These grants benefited organizations that either promote economic development, or provide community services and affordable housing to LMI individuals. One organization receiving funds, for example, provides food, shelter, support, and care to those most in need.

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

The bank demonstrates excellent responsiveness to the CD service needs in La Plata County. Employees of FNBD provided a combined 2,200 hours of service to eight organizations since the last examination. There were 10 employees involved in providing CD services and each used their financial expertise to benefit the AA. Again, a continued commitment is apparent in a majority of the activities. The organizations that benefited promote affordable housing, community service, or economic development in La Plata County or southwestern Colorado.

FNBD also offers retail services that make banking more accessible to LMI individuals. A checking product is available that requires no minimum balance and no service fees if the customer opts for electronic statements. In addition, the bank is involved in two programs where interest earned on certain account balances benefits LMI populations. Additionally, customers may utilize telephone, mobile, or online banking to access account information or conduct certain transactions. Two branches offer extended hours, including Saturdays, with a full range of services.

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

In summary, the bank demonstrates adequate responsiveness to CD needs. The bank could be more responsive to the needs of its AA if it completed a needs assessment of the service area, developed a plan to address identified needs, and implemented the plan.

### **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.