



PUBLIC DISCLOSURE

August 3, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Pikes Peak National Bank
Charter Number 15058

2401 West Colorado Avenue
Colorado Springs, CO 80904

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 Outstanding

The following major factors support Pikes Peak National Bank's (PPNB or Bank) rating:

- PPNB's performance in meeting the needs of the assessment area (AA) is reasonable as demonstrated by its quarterly loan-to-deposit (LTD) ratio of 54 percent during the evaluation period.
- PPNB originates a substantial majority of loans by both number of loans (95.0 percent) and dollar volume (99.5 percent) within the bank's assessment area (AA).
- The borrower distribution of PPNB's loans shows an excellent penetration of lending to businesses of different sizes and to consumers of different income levels.
- The geographic distribution of loans within the AA reflects an excellent dispersion of lending to businesses and individuals in census tracts of different income levels.

SCOPE OF EXAMINATION

Our objective in this examination is to assess the bank's performance in meeting the credit needs of the community in which it operates. The evaluation period for this examination is from the start date of the bank's prior CRA examination, October 19, 2009, to the start date of this examination, August 10, 2015. The review period, the time-period from which we selected our loan samples, is from January 1, 2013 to June 30, 2015, and is representative of the bank's lending activities since the 2009 examination. We evaluated PPNB using Small Bank CRA procedures, which consist of a lending test as described in the regulation. PPNB's primary products are business loans and consumer loans. We selected random samples of 20 loans per product and determined the In/Out ratio from these initial samples. Since the other performance criteria all relate to the bank's performance *in* the AA, we replaced loans outside the AA with loans selected randomly that were in the AA to complete the samples. All financial information and ratios are as of June 30, 2015 or the review period, unless otherwise stated.

DESCRIPTION OF INSTITUTION

PPNB is a community bank headquartered in Colorado Springs, Colorado, which is located in the central part of the state. Pikes Peak National Company, a one-bank holding company also located in Colorado Springs, Colorado, wholly-owns PPNB. The bank comprises substantially all of the holding company assets. As of June 30, 2015, PPNB had \$87 million in average assets and \$9 million in tier one capital. The bank operates its main office in Colorado Springs, Colorado, and has two other full-service branches also located in Colorado Springs. Each branch location includes a deposit-taking ATM. Banking hours do not vary in a way that inconveniences individuals in its AA. PPNB has had no merger or acquisition activities since the last CRA examination.

PPNB is a full-service banking institution. The bank offers a variety of loan and deposit products at all of its locations. The bank’s loan portfolio by dollar volume consisted of 57 percent commercial real estate loans, 17 percent home loans, 15 percent business loans, five percent consumer loans, and six percent other loans.

During most of this evaluation period, the PPNB operated under an Enforcement Action (Action), which required significant time, staff efforts, and financial resources. Despite working under the Action, PPNB management remained focused on meeting the credit needs of its community. We considered these contextual factors when reaching our conclusions concerning the Bank's CRA performance. PPNB currently has no legal, financial, or other constraints that impede its ability to help meet the credit needs in its AA.

The bank received a “Satisfactory” rating at its last CRA evaluation dated October 19, 2009.

DESCRIPTION OF ASSESSMENT AREA(S)

Management has designated El Paso County, Colorado as its AA. Colorado Springs is the largest city in El Paso County. Based on 2010 census data, this AA is comprised of 130 census tracts, of which seven (5 percent) are low-income, 40 (31 percent) are moderate-income, 51 (39 percent) are middle-income, 31 (24 percent) are upper-income, and one census tract (one percent) has not yet been designated as to income level. The Department of Housing and Urban Development (HUD) 2010 AA updated median-family income for this AA is \$70,000. According to 2010 US Census data, there are 153,625 families residing within the AA. Thirty-six percent of AA families are low-and moderate-income. HUD determines Income categories designations based on annual income as a percentage of AA median-family income. Specific demographic data and economic data for this area follow in the table below.

Demographic and Economic Characteristics of El Paso County, CO	
Population	
Number of Families	153,625
Number of Households	227,151
Geographies	
Number of Census Tracts	130
% Low-Income Census Tracts	5%
% Moderate-Income Census Tracts	31%
% Middle-Income Census Tracts	39%
% Upper-Income Census Tracts	24%
Median Family Income (MFI)	
2010 MFI for AA	68,800
2014 HUD-Adjusted MFI	70,000
Economic Indicators	
Unemployment Rate	5.5%
2010 Median Housing Value	226,133
% of Households Below Poverty Level	10%

Source: 2010 Census data and HUD updated income data.

The main drivers of the El Paso County/Colorado Springs economy are military, high-tech, and tourism. The banking environment in the Bank's AA is competitive. The June 30, 2014, FDIC Deposit Market Share Report indicates that 38 institutions compete for deposits in the AA. PPNB has a deposit market share of 1.13 percent. Wells Fargo Bank, National Association; JP Morgan Chase Bank, National Association; and U.S. Bank, National Association hold slightly more than 51 percent of AA deposits. The same banks that compete for deposits also compete for loans in the AA.

Local economic conditions are satisfactory and reflect economic activity at pre-economic downturn levels. The size of the AA labor force has gradually increased from its 2005 low to its present level in 2010. The unemployment rate was at its low point in the second quarter of 2007 at 3.7 percent, and grew through the economic downturn years and reached its high point of 9.8 percent in June of 2011. The unemployment rate as of June 30, 2015, is 5.5 percent, which has been generally been \pm 0.5 percent from the June 30, 2015 rate over the last 12 months.

We contacted a member of the community to assess the credit needs in El Paso County. The contact indicated that small business lending continues to be a primary credit need in the community. The contact noted that local financial institutions are active and doing a good job of providing loans to businesses that meet standard lending criteria.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

PPNB's performance under the Lending Test is "Outstanding." The bank's performance exceeds the standard for satisfactory performance in three of the tests and meets the standard in one test.

Loan-to-Deposit Ratio

PPNB's lending level in the AA is reasonable and meets the standard for satisfactory performance considering its resources and capacity to lend, demographic and economic factors, and contextual factors noted in the Description of the Institution section of this Report. PPNB's LTD ratio for all quarters since the prior CRA public evaluation dated October 19, 2009, is 54 percent, which is near the average quarterly LTD ratio for comparable banks over the same period.

To compare PPNB's lending level in the AA with similarly situated banks, we identified four banks operating in the AA with similar lending focus and asset size. We then compared PPNB's average quarterly LTD ratio for all quarters since the prior CRA public evaluation with the average quarterly LTD ratios of the comparable banks for the same period. PPNB's ratio ranged from a quarterly low of 44 percent to a quarterly high of 69 percent, with an average quarterly LTD ratio of 54 percent for the 21 quarters

since the prior CRA public evaluation. For the same period, the average quarterly LTD ratio for the comparable banks was 62 percent.

Lending in Assessment Area

PPNB granted a substantial majority of its loans inside its AA both by number of loans and by dollar volume. This exceeds the standard for satisfactory performance. As noted in Table 1 below, the Bank granted 95.0 percent of the number of loans and 99.5 percent of the dollar volume within its delineated AA.

Table 1 - Lending in El Paso County, CO										
Loan Type	Number of Loans					Dollars of Loans (\$000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	20	100.0	0	0.0	20	2,498	100.0	0	0.0	2,498
Consumer Loans	18	90.0	2	10.0	20	141	92.0	13	8.0	154
Total	38	95.0	2	5.0	40	2,639	99.5	13	0.5	2,652

Source: AA data from 2010 U.S. Census data. Bank data from business loan and consumer loan samples of loans originated January 1, 2013, to June 30, 2015.

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

PPNB’s overall lending performance to borrowers of different incomes and to businesses of different sizes is excellent. We weighted Borrower Distribution of Consumer Loans more heavily than Borrower Distribution of Business Loans to arrive at the overall rating for this test. While the distribution of business loans by number and by size exceeded comparator demographics, 23 percent of AA businesses did not report their revenue, which detracts from the reliability of this measure of performance. We also analyzed the size of the loans to businesses in our sample to determine if the bank was making small loans to businesses.

Consumer Loans

The distribution of consumer loans to borrowers of different income levels significantly exceeds the ratio for satisfactory performance. The portion of PPNB's consumer loans to low-income consumers exceeds the percentage of low-income consumers in the AA. The portion of PPNB's consumer loans to moderate-income households significantly exceeds the percentage of moderate-income households in the AA. See Table 2A below for details.

Table 2A - Borrower Distribution of Consumer Loans in El Paso County, CO								
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	23	26	17	49	19	22	41	0

Source: AA data from 2010 U.S. Census data. Bank data from the business loan and consumer loan sample of loans originated January 1, 2013, to June 30, 2015.

Business Loans

PPNB's distribution of loans to businesses of different sizes reflects more than reasonable penetration and exceeds the standard for satisfactory performance. PPNB originated 85 percent of the number and 86 percent of the dollar volume of its business loans to small business borrowers (businesses with total revenues of \$1 million or less) in its AA. Both the portion of loans by number and the portion of loans by dollar volume exceed the demographic comparator. PPNB's loans to businesses were predominantly small commercial loans of \$250,000 or less. See Tables 2B and 2C below for details.

Table 2B - Borrower Distribution of Loans to Businesses in El Paso County, CO				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	74	3	23	100
% of Bank Loans in AA by #	85	15	0	100
% of Bank Loans in AA by \$	86	14	0	100

Source: Assessment Area data from 2014 Dunn and Bradstreet. Bank data from business loan sample of loans originated January 1, 2013, to June 30, 2015.

The lack of revenue data on 23 percent of AA businesses poses a challenge in determining the reliability of the distribution of loans in the AA by revenue. The community contact we interviewed indicated that the AA businesses had not fully recovered from the downturn in business activity in the 2007 – 2010 timeframe. As supplemental information, we considered that businesses slowly recovering from the downturn may opt for smaller loans more in line with a recovering income stream. Therefore, the size of the loans to businesses may act as an indicator, or proxy, for the income of the business receiving the loan. PPNB's loans to businesses were predominantly small commercial loans of \$250,000 or less. Fifty percent of the number of PPNB loans in the business sample originated in loan amounts of \$100,000 or less. Eighty-five percent of the number of loans in the business sample originated for amounts of \$250,000 or less. None of PPNB's business loan originations in the sample was for an amount greater than \$350,000. See Table 2C below for details.

Table 2C – Borrower Distribution of Loans to Businesses by Loan Size in El Paso County, CO				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans \$(000s)	Percent of Dollar Volume
\$0 - \$100,000	10	50	554	22
\$100,001 - \$250,000	7	35	1,045	42
\$250,001 - \$500,000	3	15	900	36
\$500,001 - \$1,000,000	0	0	0	0
Over \$1,000,000	0	0	0	0

Source: Business loan sample.

Geographic Distribution of Loans

The geographic distribution of loans within the AA reflects an excellent dispersion of lending to businesses and individuals in census tracts of different income levels.

Business Loans

The geographic distribution of business loans reflects excellent distribution throughout the AA compared to area demographics. The portion of loans to businesses in low-income census tracts (CTs) is near AA demographic and meets the standard for satisfactory performance. The portion of loans to businesses in moderate-income CTs is significantly higher than AA demographics and significantly exceeds the standard for satisfactory performance. Please see Table 3A below for details.

Table 3A - Geographic Distribution of Loans to Businesses in El Paso County, CO								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Business Loans	6	5	23	45	36	50	35	0

Source: Assessment Area data from 2014 Dunn and Bradstreet. Bank data from business loan sample of loans originated January 1, 2013, to June 30, 2015.

Consumer Loans

The geographic distribution of consumer loans reflects excellent distribution throughout the AA compared to area demographics. The portion of loans to households in low-income CTs exceeds AA demographics and exceeds the standard for satisfactory performance. The portion of loans to households in moderate-income CTs is higher than AA demographics and exceeds the standard for satisfactory performance. Please see Table 3B below for details.

Table 3B - Geographic Distribution of Consumer Loans in El Paso County, CO								
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	5	6	28	33	41	21	26	40

Source: AA data from 2010 U.S. Census data. Bank data from consumer loan sample of loans originated January 1, 2013, to June 30, 2015.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

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