

PUBLIC DISCLOSURE

August 26, 1996

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

FIRST STATE BANK of FORT COLLINS
10-08-0669
430157

2900 SOUTH COLLEGE AVENUE
FORT COLLINS, COLORADO 80526

Federal Reserve Bank of Kansas City
925 Grand Avenue
Kansas City, Missouri 64198

NOTE: 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

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of First State Bank of Fort Collins, Fort Collins, Colorado, prepared by the Federal Reserve Bank of Kansas City, Denver Branch, the institution's supervisory agency, as of August 26, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: **Outstanding**

The bank's performance with the Community Reinvestment Act is outstanding. The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. Additionally, a substantial majority of loans are in the bank's assessment area, and the distribution of loans reflects excellent dispersion among individuals of different income levels and businesses of different sizes. The geographic distribution of loans across the assessment area by different income levels is reasonable.

The following table indicates the performance level of First State Bank of Fort Collins with respect to each of the five core performance criteria and the two optional criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST STATE BANK OF FORT COLLINS PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	The bank has not received any complaints about its CRA performance.		
Qualified Investments	Unrated. The bank does not have investments that are qualified investments.®		
Qualified Services	Unrated. The bank does not currently offer services that are "qualified services."		

DESCRIPTION OF INSTITUTION

First State Bank of Fort Collins is located in the city of Fort Collins, Colorado, at 2900

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South College Avenue. The bank operates out of one location and does not have any branches. First State Bank of Fort Collins is the only bank in the Fort Collins area that is locally owned. Other banks of comparable size and capacity in the area are owned by large multi-bank holding companies.

The bank reported total assets of \$56,260,000 in its June 30, 1996 Report of Condition and Income (Call Report). The following table reflects the distribution of the bank's loan portfolio as of that date.

DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO		
Type of Loan	\$ Amount (In Thousands)	Percentage of Total Loans
Commercial loans	\$ 5,782	15
Loans secured by real estate:		
Construction and land development	7,590	20
Revolving, open-end loans secured by 1- to 4- family residential properties	948	3
All other loans secured by 1- to 4-family residential properties	10,594	28
Secured by multifamily (5 or more) residential properties	443	1
Secured by nonresidential properties	5,187	14
Consumer instalment loans	6,328	17
Consumer open-end loans	489	1
Other	53	1
Total	\$37,414	100

The bank's performance under CRA was last evaluated during the April 4, 1995 examination. An outstanding CRA rating was assessed at that time.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area encompasses the entire city of Fort Collins in Larimer

County, which is part of the Fort Collins Metropolitan Statistical Area (MSA). The bank's assessment area consists of a diverse mix of low-to-upper income levels and geographies. The bank's assessment area does not arbitrarily exclude any low- and moderate-income areas, taking into account the bank's size, structure, and financial condition.

The population in the bank's assessment area is currently estimated at 117,834 and reflects a median family income of \$37,159. The population of the Fort Collins MSA is estimated at 186,136 and has a slightly lower median family income of \$36,932.

There are a total of 28 census tracts in the assessment area. Each tract is identified according to the level of income as compared to the median family income of the bank's assessment area. Low-income is defined as less than 50 percent; moderate-income as at least 50 percent and less than 80 percent; middle-income as at least 80 percent and less than 120 percent; and upper-income as 120 percent or more of the median family income of the bank's assessment area. The following table shows the distribution of those tracts among the four income categories.

INCOME CLASSIFICATION OF CENSUS TRACTS IN THE ASSESSMENT AREA				
Income Category	Low	Moderate	Middle	Upper
Number of Tracts	2	4	14	8
Percentage of Total Tracts	7%	14%	50%	29%

The local economy is strong. The area benefits from high-tech and health service companies and the local university in Fort Collins. These entities provide middle-to-upper income level paying jobs. The area also has a large number of business start-ups. For example, a number of businesses in the retail and fast food sectors have moved into the area. This economic activity has stimulated the population growth in the Fort Collins area.

To help maintain quality growth, the City of Fort Collins has increased fees assessed on new residential and commercial construction developments. As a result, land costs have increased, causing a housing problem within the city. Community contacts stated that the lack of affordable housing is a problem in Fort Collins and has resulted in people moving to outlying areas. Consequently, the cities of Windsor, Loveland, and Berthoud have benefited from the increased economic activity. The housing problem is exacerbated by the number of college students who attend Colorado State University. Furthermore, low-paying jobs in the retail and fast food sectors add to the problem of individuals being able to afford housing in Fort Collins.

Major employers in the Fort Collins area include all levels of education and manufacturers involved in producing computer equipment and parts, photographic materials, and health care products. Other major employment sectors are retail trade, services, and government. Entities employing over 1,000 people include Colorado State University, Poudre School District, Kodak, Hewlett-Packard, Poudre Valley Hospital, Woodward Governor, Teledyne Water Pik, Larimer County, and the City of Fort Collins.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the Community Reinvestment Act is outstanding. The bank's performance under each of the five small institution assessment criteria is summarized on the following pages.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio, which contrasts the level of net loans to deposits, is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's average net loan-to-deposit ratio for the last four quarters, based on Call Report information ending June 31, 1996, is 69 percent. This ratio is slightly lower than other banks of similar sizes located in the assessment area, but considered excellent given the level of competition. The other banks within the assessment area are owned by multi-bank holding companies, which makes it difficult for a small locally-owned bank to compete. As of March 31, 1996, Colorado banks of similar size and capacity averaged 66 percent net loans to deposits.

Lending in Assessment Area

A substantial majority of loans are in the bank's assessment area. This conclusion is based on a sample of loans reviewed during the examination. Three loan types were sampled, including motor vehicle, consumer real estate-secured, and small business loans. Overall, 71 percent of the number and 71 percent of the dollar volume of loans sampled are in the bank's assessment area.

As noted in the following table, of the three loan types sampled, all showed high concentrations within the assessment area.

DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
Loan Type	<i>Inside</i>				<i>Outside</i>			
	Number of Loans	%	Amount of Loans	%	Number of Loans	%	Amount of Loans	%
Motor Vehicle	42	71	\$ 434,286	70	17	29	\$ 185,037	30
Consumer Real Estate-Secured	44	73	2,144,444	64	16	27	1,219,792	36
Small Business	41	67	4,377,662	75	20	33	1,453,245	25

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Further, the high penetration of loans in the bank's assessment area is particularly noteworthy given the competition in the city of Fort Collins. There are approximately 28 financial institutions or branches serving the city of Fort Collins.

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

The distribution of borrowers, given the demographics of the assessment area, reflects an excellent penetration among individuals of different income levels and businesses of different sizes.

As noted in the following table, the loan sample revealed that the bank is making loans to borrowers of different income levels, including low- and moderate-income individuals. The distribution of the number of motor vehicle loans by income level of borrowers is particularly significant. The percentage of motor vehicle loans to low-income and moderate-income borrowers are each 21 percent. These percentages exceed the demographic composition of the assessment area of 8 percent low-income and 16 percent moderate-income. The middle-income and upper-income levels comprise 50 percent and 26 percent of the assessment area population, respectively.

The real estate-secured loan sample does not compare as well to the demographics of the assessment area. However, it should be noted that the real estate market within the assessment area is considered high-dollar. The community contacts stated that the average price of a single-family home is \$148,000 for a single-family residence and \$100,000 for a condominium/townhome. Consequently, there is a lack of affordable housing in the city of Fort Collins. Middle- and upper-income individuals and families are more likely to be home owners because of the high cost of new and existing homes within the Fort Collins area. The penetration of real estate-secured loans to low-income borrowers was 2 percent and 20 percent for moderate-income borrowers, which is reasonable given the housing trends in the area.

DISTRIBUTION OF CONSUMER LOANS SAMPLED IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER								
Income Level	Automobile				Real estate-secured			
	Number	%	Dollar	%	Number	%	Dollar	%

Low	9	21	\$ 57,845	13	1	2	\$ 37,000	2
Moderate	9	21	84,473	19	9	20	155,084	7
Middle	12	29	116,579	27	14	32	745,638	35
Upper	12	29	175,389	41	20	46	1,208,722	56

An analysis of the sample of small business loans (loans with original amounts of \$1 million or less) revealed that the bank is making loans to businesses of different sizes. Following is a table depicting the of level of loan activity within each revenue category. The sample shows that 88 percent of the small business loans are to businesses with gross annual revenues less than \$1 million. Loan originations to businesses with gross annual revenues less than \$250,000 is particularly noteworthy at 61 percent.

DISTRIBUTION OF BUSINESS LOANS SAMPLED WITHIN THE ASSESSMENT AREA				
Gross Annual Revenue	Number of Loans	%	Dollar of Loans	%
Less than \$100,000	12	29	\$ 566,879	13
Greater than or equal to \$100,000 but less than \$250,000	13	32	2,074,997	47
Greater than or equal to \$250,000 but less than \$500,000	8	20	574,341	13
Greater than or equal to \$500,000 but less than \$1,000,000	3	7	761,250	18
Greater than or equal to \$1,000,000	5	12	400,195	9

Geographic Distribution of Loans

The bank's overall geographic distribution of loans reflects a reasonable dispersion throughout the assessment area, given the demographics of the area. As

demonstrated in the following table, the distribution of loans is concentrated in middle- and upper-income census tracts. This is well in line with the dispersion of the population among the tracts. The population composition within the low- and moderate-income tracts shows that these geographies are sparsely populated. One of the two low-income tracts encompasses the university, while the other tract includes industrial businesses and the Downtown Airpark. The moderate-income tracts are in an area west and north of the university. This area consists of primarily older residential homes and is likely to be comprised of students. Furthermore, several financial institutions are located in the low-to-moderate income census tracts which service these areas.

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF CENSUS TRACT								
Loan Type	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	#	\$	#	\$	#	\$	#	\$
Motor Vehicle	4	\$ 24,716	3	\$ 21,495	17	\$231,807	18	\$ 156,268
<i>Percent of Total</i>	10%	6%	7%	5%	40%	53%	43%	36%
Consumer Real Estate	2	130,511	6	150,236	15	809,192	21	1,054,505
<i>Percent of Total</i>	5%	6%	14%	7%	34%	38%	48%	49%
Small Business	2	666,500	5	252,524	17	854,225	17	2,604,413
<i>Percent of Total</i>	5%	15%	12%	6%	41%	20%	41%	59%
Number of tracts in Assessment Area	2		4		14		8	
Percentage of Tracts	7%		14%		50%		29%	
Number of Families by Tract	1,316		3,322		14,934		8,450	
<i>Percentage of Families</i>	5%		12%		53%		30%	
Owner Occupied Households by Tract	1,312		3,327		13,648		8,317	
<i>Percentage of Households</i>	5%		11%		52%		32%	

Response to Complaints

The bank has received no complaints about its performance in meeting assessment area credit needs. Therefore, no assessment of the bank's performance in responding to complaints was made.

Compliance with Antidiscrimination Laws and Regulations

There were no substantive violations of the antidiscrimination laws and regulations identified during the fair lending component of the compliance examination.

In summary, the bank's overall performance materially exceeds the standards for

satisfactory in the performance criteria to the extent that an outstanding rating is warranted.