

PUBLIC DISCLOSURE

December 9, 1996

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**FIRST UNITED BANK
10-08-0049
938653**

**P.O. BOX 1208
PARKER, CO 80134**

Federal Reserve Bank of Kansas City
925 Grand Boulevard
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 United Bank, Parker, Colorado, prepared by **the Federal Reserve Bank of Kansas City, Denver Branch** the institution's supervisory agency, as of December 9, 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: Satisfactory

The bank's performance with the Community Reinvestment Act is satisfactory. 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 a reasonable dispersion among individuals of different income levels. The geographic distribution of loans across the assessment area by different income levels reflects a less than reasonable dispersion.

The following table indicates the performance level of First United Bank with respect to each of the five core performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST UNITED BANK 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		X	
Geographic Distribution of Loans			X
Response to Complaints	The bank has not received any complaints about its CRA performance.		

DESCRIPTION OF INSTITUTION

The bank reported total assets of \$73,175,000 in its September 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		
	\$ Amount	Percentage

Type of Loan	(In Thousands)	of Total Loans
Commercial loans	6,962	13
Loans secured by real estate:		
Construction and land development	23,209	45
Revolving, open-end loans secured by 1- to 4-family residential properties	431	<1
All other loans secured by 1- to 4- family residential properties	11,660	23
Secured by multifamily (5 or more) residential properties	770	1
Secured by nonresidential properties	5,996	12
Consumer instalment loans	2,474	5
Consumer open-end loans	142	<1
Other	4	<1
Total	51,648	100

First United Bank is located in the city of Parker, Colorado, at 19201 East Main Street. The bank has eight office locations, seven of which are located in the Denver Metropolitan Statistical Area (MSA). Six of these offices are in the southeast quadrant of the Denver MSA, while the seventh office, opened in July 1996, is located in Lakewood. The bank also has an office in the Colorado Springs MSA. Of the eight offices, the bank has two located in low- or moderate-income census tracts. During the last examination, it was noted that the bank is shifting from focusing lending efforts from the construction market, primarily in the speculative construction of high-end residential homes, to consumer

and commercial loans. A comparison of the banks 1995 year-end Call Report to the September 30, 1996 Call Report provides some evidence of this strategy. Construction lending has decreased from 58 percent to 45 percent of total lending activity. Commercial lending has increased from 6.5 percent of total loans to 13 percent. Consumer lending has increased slightly from 4 percent of total loans to 5 percent.

The banks performance under CRA was last evaluated during the February 5, 1996 examination. A Satisfactory CRA rating was assessed at that time.

DESCRIPTION OF THE BANKS ASSESSMENT AREA

The banks designated assessment area encompasses a major portion of the Denver and Colorado Springs MSAs. There are 501 census tracts within the banks assessment area. The bank has designated four whole counties and one partial county as its assessment area.

Within the Denver MSA the bank has included the whole counties of Denver, Arapahoe, Douglas, and just recently, Jefferson counties.

Within these counties are the following cities; Denver, Parker, Aurora, Castle Rock, Englewood, Littleton, Lakewood, Wheatridge, Westminster, and Arvada. The population of the bank assessment area encompassing the Denver MSA is 1,357,942. The population within these counties has risen 10 percent from 1990 to 1994. The largest increase was in Douglas County with a 43 percent increase.

The lowest increase was in Denver County at 5.7 percent. The median household income for the Denver MSA is \$32,852, which is slightly higher than the state at \$30,140. Denver has a diverse mix of industries that include aerospace, computers, energy, travel, education, defense, health services, consumer products, and tourism. From 1990 to 1994, employment in the construction field has risen 44.6 percent. This can be attributed to the increase in population in the Denver MSA as seen in the number of building permits issued, which reached a five-year high in 1995.

The bank has also designated a majority of the Colorado Springs MSA and El Paso county as part of its assessment area. The bank has excluded five census tracts within this county. Two of these tracts are military installations and have their own financial institutions (United States Air Force Academy and Ft. Carson Army Base). The other three are located on the western edge of Colorado Springs towards the mountains, and are considered middle-to-upper income tracts. The bank is not arbitrarily excluding any low- or moderate-income census tracts from its assessment area.

The population within the bank's Colorado Springs assessment area, according to 1990 census data, is 364,708 with a median household income of \$29,479. The population growth for the area had slowed in 1995. In 1995 the population in the Colorado Springs MSA had risen from 451,000 in 1994 to 463,000, which is an increase of 2.7 percent. However from 1992 to 1994, the population growth averaged 3.7 percent per year. Colorado Springs major industries include tourism, defense, computers, computer software, telecommunications, manufacturing, and retail trade. From 1990 to 1994, employment in the construction field has risen 41.1 percent. The number of housing permits issued within this time frame reached a five-year high in 1995. This can be attributed to the steady population growth in the area.

There are a total of 501 census tracts in the 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 ¹	Moderate ²	Middle ³	Upper ⁴
Number of Tracts	108	106	167	120
Percentage of Total Tracts	22	21	33	24

¹ Less than 50 percent of median income.

² At least 50 percent and less than 80 percent of median income

³ At least 80 percent and less than 120 percent of median income

⁴ 120 percent or more of median income.

(Median income is based on Denver MSA and Colorado Springs MSA median income figures)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the CRA is satisfactory. 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 size, financial condition, and assessment area credit needs. The bank average net loan-to-deposit ratio based on the last four quarters ending September 30, 1996, is 76 percent. This ratio is 12 percentage points higher than other banks of similar sizes (between \$25,000,000 and \$100,000,000 in assets) located in the assessment area. As of September 30, 1996, Colorado banks of similar size and capacity averaged 64 percent net loans to deposits.

Lending in Assessment Area

A substantial majority of loans are in the bank assessment area.

This conclusion is based on a sample of loans reviewed during the examination. Three loan types were sampled, including consumer-secured loans, consumer real estate-secured loans, and small business loans. Overall, 82 percent of the number and 77 percent

of the dollar volume of loans sampled are in the bank 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	%
Consumer Secured	34	89	403,428	93	4	11	30,458	7
Consumer Real Estate-Secured	33	75	3,910,634	74	11	25	1,375,900	36
Small Business	47	82	8,418,964	78	10	18	2,351,926	22

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

The distribution of borrowers, given the demographics of the assessment area, reflects a reasonable 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 consumer-secured loans by income level of borrowers is particularly significant. The loan sample reflects that the banks percentage of consumer-secured loans to low-income and moderate-income borrowers is 12 and 32 percent respectively.

These percentages exceed the demographic composition of the assessment area. Based on median family income, low- and moderate-income families total 36 percent of the assessment area total. The loan sample reflects that middle-income and upper-income borrowers comprise 24 and 32 percent of the banks consumer lending activity.

Assessment area demographics show that middle-income and upper-income families comprise 24 percent and 40 percent of the total for the assessment area.

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 consists primarily of high-dollar activity. The community contacts in the Denver and Colorado Springs MSA stated that the average price of a newly constructed home in the Parker and Colorado Springs area is high and is due to the number of middle- and upper-income individuals located in these areas. Middle- and upper-income individuals and families are more likely to be home owners and construct new residences. Therefore, the penetration of real estate-secured loans was only 3 percent for low-income borrowers and 6 percent for moderate-income borrowers.

DISTRIBUTION OF CONSUMER LOANS SAMPLED IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER								
Income Level	Consumer Secured				Real estate-secured			
	Number	%	Dollar	%	Number	%	Dollar	%
Low ¹	4	11	30,908	8	1	3	5,106	<1
Moderate ²	11	32	129,951	32	2	6	96,102	2
Middle ³	7	24	62,567	15	6	18	233,875	6
Upper ⁴	11	32	180,002	45	24	73	3,575,551	91

1 Less than 50 percent of median income.

2 At least 50 percent and less than 80 percent of median income

3 At least 80 percent and less than 120 percent of median income

4 120 percent or more of median income.

(Median income is based on Denver MSA and Colorado Springs MSA median income figures)

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 level of loan activity within each revenue category. The sample shows that 87 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 37 percent.

DISTRIBUTION OF BUSINESS LOANS SAMPLED WITHIN THE ASSESSMENT AREA				
Gross Annual Revenue	Number of Loans	%	Dollar of Loans	%
Less than \$100,000	9	20	833,390	10
Greater than or equal to \$100,000 but less than \$250,000	8	17	872,714	11
Greater than or equal to \$250,000 but less than \$500,000	11	23	1,575,875	20
Greater than or equal to \$500,000 but less than \$1,000,000	11	23	2,581,866	32
Greater than or equal to \$1,000,000	8	17	2,139,622	27

Geographic Distribution of Loans

The bank’s overall geographic distribution of loans reflects a less than reasonable dispersion throughout the assessment area, given the demographics of the area. The bank’s loan sample did not reflect any originations in low-income census tracts for any of the three loan products sampled. According to assessment area demographics, 22 percent of the census tracts are considered low-income tracts; however, only 5 percent of the total assessment area families live in these tracts.

The bank’s lending in the moderate-income tracts was also disproportionately lower than the demographics of the assessment area. For consumer-secured, real estate-secured, and small business loans, only 15 percent, 6 percent, and 13 percent, respectively, were in moderate-income census tracts. Compared to demographic figures for the assessment area, 21 percent of total census tracts are moderate-income census tracts and 20 percent of families live in these tracts. As demonstrated in the following table, the distribution of loans is concentrated in middle- and upper-income census tracts. However, it is noted that these tracts contain 75 percent of the assessment area families. Further consideration should also be given to the bank’s focus on construction lending, which is an active market in those higher-income census tracts.

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF CENSUS TRACT

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF CENSUS TRACT								
Loan Type	Low-Income ¹		Moderate-Income ²		Middle-Income ³		Upper-Income ⁴	
	#	\$	#	\$	#	\$	#	\$
Consumer Secured	0	0	5	73, 568	10	\$92, 202	19	237, 658
<i>Percent of Total</i>	<i>N/A</i>	<i>N/A</i>	<i>15%</i>	<i>18%</i>	<i>29%</i>	<i>23%</i>	<i>56%</i>	<i>59%</i>
Consumer Real Estate	0	0	2	133, 136	13	1, 572, 566	18	2, 204, 932
<i>Percent of Total</i>	<i>N/A</i>	<i>N/A</i>	<i>6%</i>	<i>4%</i>	<i>39%</i>	<i>40%</i>	<i>55%</i>	<i>56%</i>
Small Business	0	0	6	795, 035	16	2, 475, 530	25	5, 148, 399
<i>Percent of Total</i>	<i>N/A</i>	<i>N/A</i>	<i>13%</i>	<i>10%</i>	<i>34%</i>	<i>29%</i>	<i>53%</i>	<i>61%</i>
Number of tracts in Assessment Area	108		106		167		120	
Percentage of Tracts	22%		21%		33%		24%	
Number of Families by Tract	23,694		90,450		194,321		143,910	
<i>Percentage of Families</i>	5%		20%		43%		32%	
Owner Occupied Households by Tract	14,413		71,611		184,006		147,867	
<i>Percentage of Households</i>	5%		17%		44%		35%	

¹ Less than 50 percent of median income.

² At least 50 percent and less than 80 percent of median income

³ At least 80 percent and less than 120 percent of median income

⁴ 120 percent or more of median income.

(Median income is based on Denver MSA and Colorado Springs MSA median income figures)

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 performance under each criteria varies in meeting standards for a satisfactory performance. Overall, the bank's performance in the CRA is considered satisfactory.