

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 each 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 Centennial Bank, Englewood, Colorado, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of September 15, 1997. 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: *This institution is rated Satisfactory.*

The bank's rating was assessed under the following five core criteria developed for evaluating CRA performances of small banks:

- Loan-to-Deposit Ratio
- Lending Inside the Assessment Area
- Lending to Borrowers of Different Income Levels and Businesses of Different Sizes
- Geographic Distribution of Loans
- Record of Responding to Complaints About the Bank's CRA Performance

The bank's overall performance under the CRA is considered satisfactory. The distribution of lending activity indicates that the bank is satisfactorily lending to consumers of different income levels and to small businesses of different revenue sizes. The bank is particularly lending to low- and moderate-income individuals and to small businesses with annual revenues of less than \$500,000. Consumer loans are also well distributed geographically, especially in moderate-income census tracts. A majority of the bank's lending activity is within its assessment area. The bank's loan-to-deposit ratio is considered low, indicating that the bank has an opportunity to enhance its lending activity throughout the assessment area. The bank has not received any complaints regarding its CRA performance and, therefore, this performance criterion was not rated.

The bank's performance under the CRA was last evaluated as of March 18, 1996, at which time it was also assessed as Satisfactory.

DESCRIPTION OF INSTITUTION

The bank is located in Englewood, Colorado, in the southeastern section of the Denver Metropolitan Statistical Area (MSA). The bank operates from one office and has no automatic teller machines. Based on its June 30, 1997 Report of Condition and Income (Call Report), the bank has total assets of \$24,907,000, total net loans of \$4,012,000, and deposits of \$23,119,000.

A majority of the bank's deposits consist of escrow deposits from an affiliated title company. The bank is restricted from lending on these funds due to their volatile nature.

According to management, the bank's lending strategy is to provide fast, quality service to individuals and small businesses in the community. Given the bank's resources, management stated that this strategy could best be implemented by concentrating its efforts on commercial and consumer lending and placing less emphasis on consumer real estate lending. The table below shows the distribution of the bank's loan portfolio based on the June 30, 1997 Call Report:

<i>DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO AS OF JUNE 30, 1997</i>		
Type of Loan	Amount (In Thousands)	Percentage of Total Loans
Commercial Loans	1,691	42
Consumer Loans	1,067	26
Loans Secured by Real Estate:		
Construction and land development	196	5
Loans secured by 1- to 4-family residential properties	645	16
Secured by nonfarm, nonresidential properties	453	11
Other (Less Unearned Income)	-5	--
Total	4,047	100

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area consists of all of Arapahoe and Douglas Counties and a portion of Denver County. (Please refer to the attachment for a map of the bank's assessment area.) Based on 1990 Census data, the assessment area has a population of 518,201. The assessment area has experienced substantial population increases with Arapahoe County increasing by 40 percent and Douglas County increasing by 140 percent from 1980 to 1990. Denver County decreased by 5 percent during this time period.

The assessment area consists of 151 census tracts. Of this total, 22 are low-income, 26 are moderate-income, 48 are middle-income, and 55 are upper-income census tracts. Only two of the low-income census tracts are populated. The assessment area contains 139,154 families of which 30 percent are considered low- or moderate-income. By comparison, the Denver MSAs composition of low- and moderate-income families is 37.5 percent. According to 1990 Census data, the median family income for the assessment area is \$45,933 compared to \$40,222 for the MSA.

Denver has a diverse cross-section of industries that include telecommunications, health services, airlines, consumer products, aerospace, computers, energy, and tourism. According to 1995 information from the U.S. Bureau of Labor Statistics, approximately 28 percent of the local workforce is engaged in service type activities, which have shown the largest growth over recent years. Retail trade and government make up 23 percent and 13 percent, respectively, of the employment sector. Residential construction activity has increased significantly, beginning in 1990. New residential permit activity reached a 10-year high in 1994, but declined by 5 percent in

1995. For south metro Denver, economic indicators, such as retail sales and unemployment figures, reflected a leveling off of economic activity during the first half of 1995.

Two members of the community were interviewed during the examination, including a local trade association representative and a local businessperson. According to these contacts, major employers in the south metro area include U.S. West, Lockheed Martin, Merrill Lynch, Data Corporation, Park Meadows Shopping Center, and the school districts. The community contacts stated that the local economy is doing well, but may be leveling off. Heavy competition and a labor shortage are hindering small businesses. Although there is a competitive lending market to meet various credit needs throughout the community, small businesses may be in need of more nontraditional sources of financing. The community contacts perceive that small businesses that cannot meet the banking industry's credit standards are in need of funds to either start up or survive. A need for affordable housing in the community was also noted.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

To evaluate the bank's lending activity within its assessment area, a sample of 82 loans representing the bank's major product lines was reviewed during the examination. This sample consisted of 49 consumer and 33 commercial loans.

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

According to 1990 Census data, there are 139,154 families in the bank's assessment area. These families are classified into the following income categories:

INCOME CLASSIFICATION OF FAMILIES WITHIN THE BANK'S ASSESSMENT AREA				
	Low ¹	Moderate ²	Middle ³	Upper ⁴
Percentage of Families	13	17	24	46

- 1 Less than 50 percent of the median family income
 - 2 At least 50 percent and less than 80 percent of the median family income
 - 3 At least 80 percent and less than 120 percent of the median family income
 - 4 120 percent or more of the median family income
- (Median family income is based on the Denver MSA median family income.)

The distribution of the bank's motor vehicle loans to borrowers of different income levels is reflected in the following table. Only the 36 loans made within the bank's assessment area were used in the analysis.

INCOME CLASSIFICATION OF BORROWERS IN BANK'S LOAN SAMPLE				
Percentage of Loans:	Low	Moderate	Middle	Upper
By Number	25	33	14	28
By Dollar Volume	14	27	22	37

Given the demographics of the assessment area, the bank's loan sample indicates that the distribution of consumer borrowers within the bank's assessment area reflects an excellent penetration among individuals of different income levels, particularly low- and moderate-income individuals. The sample indicates that 58 percent of the bank's motor vehicle loans, 41 percent by dollar volume, were to low- or moderate-income individuals. By comparison, Census data indicates that 30 percent of the families in the assessment area are low- or moderate-income families.

Additionally, the bank's lending to businesses of different sizes is reasonable. Of 27 commercial loans made inside the assessment area, 19 (70 percent) were extended to businesses that had annual revenues of \$1 million or less. These loans totaled \$461,469, or 68 percent of the dollars loaned to all businesses within the assessment area. The following table shows a reasonable distribution of small business loans at various revenue levels, particularly those businesses with annual revenues between \$100,000 and \$500,000.

<i>LENDING TO BUSINESSES OF DIFFERENT SIZES WITHIN THE ASSESSMENT AREA</i>				
Annual Revenue	Number Of Loans	%	Dollar Amount Of Loans	%
Less than \$100,000	2	7	68,157	10
Greater than or equal to \$100,000 but less than \$250,000	6	22	91,000	13
Greater than or equal to \$250,000 but less than \$500,000	6	22	218,488	32
Greater than or equal to \$500,000 but less than \$750,000	1	4	10,734	2
Greater than \$750,000 but less than \$1,000,000	4	15	73,090	11
Greater than or equal to \$1,000,000	8	30	220,754	32

Geographic Distribution of Loans

According to 1990 Census data, there are 151 census tracts in the bank's assessment area. These geographies are classified into the following income categories. The percentage of families living in each of these categories is also presented.

<i>INCOME CLASSIFICATION OF CENSUS TRACTS IN THE BANK'S ASSESSMENT AREA</i>				
	Low	Moderate	Middle	Upper
Number of Tracts	22	26	48	55
Percentage of Total Tracts	15	17	32	36

Percentage of Families in Designated Tracts	1	15	39	45
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The bank's loan sample shows the following distribution by income classification of census tracts within the bank's assessment area:

DISTRIBUTION BY INCOME CLASSIFICATION OF CENSUS TRACTS				
	Low	Moderate	Middle	Upper
Percentage of Motor Vehicle Loans - Number	0	31	25	44
Percentage of Motor Vehicle Loans – Dollar Amount	0	27	20	53
Percentage of Commercial Loans – Number	0	4	44	52
Percentage of Commercial Loans – Dollar Amount	0	3	48	49

The bank's geographic distribution of loans reflects a fairly reasonable dispersion throughout the assessment area and is, therefore, considered satisfactory. There were no loans from the sample originated in low-income census tracts. However, as the Census data indicates, only 1 percent of the families in the assessment area live in these areas. The bank is actively originating motor vehicle loans in moderate-income census tracts. The sample reflects that 31 percent of motor vehicle loans, 27 percent by dollar volume, were made to individuals living in moderate-income census tracts. These figures are substantially higher than demographic figures, which show only 15 percent of families in moderate-income census tracts.

The geographic distribution of business loans in moderate-income census tracts appears low (4 percent) when compared to the demographic distribution of families living in this income category. However, since information for the number of small businesses located in each income category is not available, conclusions about this distribution cannot be drawn.

Lending in Assessment Area

The distribution of loans sampled indicates that a majority of the bank's lending activity is within its assessment area and, therefore, meets the standards for satisfactory performance under this criterion. The sample reflects that 73 percent of motor vehicle loans and 82 percent of business loans were within the bank's assessment area. Overall, 77 percent of the total loans in the sample, 63 percent by dollar volume, were within the bank's assessment area. The total dollar volume of loans outside the assessment area is somewhat higher because of a few commercial loans with high dollar originations that were made to businesses located out-of-state, but which have a local affiliation. Most of the other loans located outside the assessment area are not in the immediate area surrounding the assessment area, but are located in adjoining counties. The following table details the bank's lending in and out of its assessment area:

DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
	Inside the Assessment Area				Outside the Assessment Area			
	Number of Loans	%	\$ Amount of Loans	%	Number of Loans	%	\$ Amount of Loans	%
Motor Vehicle	36	73	265,011	79	13	27	70,000	21
Commercial	27	82	682,221	59	6	18	477,816	41
Total	63	77	947,232	63	19	23	547,816	37

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio does not meet the conditions for satisfactory performance, given the bank's size, financial condition, and assessment area credit needs. For the four quarters ending June 30, 1997, the bank's average loan-to-deposit ratio was 37 percent.¹ By comparison, the national peer average for similar-sized banks, as of March 1997, was 61 percent. The four quarter loan-to-deposit ratios for several larger banks located in the Englewood area averaged 67 percent. Finally, ten banks in Colorado MSAs with total assets less than \$25 million had an average loan-to-deposit ratio of 57 percent as of March 1997. These comparisons provide some indication that there is an opportunity for the bank to expand its lending activity throughout the assessment area, given its financial resources. Management responded that, given the bank's size, large consumer customer base, and lending strategy of providing better quality service to community members and small businesses, the bank is doing the best it can to meet these particular credit needs in the community.

Response to Complaints

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

Compliance with Antidiscrimination Laws and Regulations

The examination identified no violations of the antidiscrimination laws and regulations. No patterns or practices were noted that resulted in discrimination against any protected classes.

¹ This figure is an adjusted loan-to-deposit ratio. The ratio is adjusted because certain types of bank deposits are restricted from lending. These include the escrow deposits from the affiliated title company and a few large dollar 30-day certificates of deposit.