

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 Colorado Mountain Bank, Westcliffe, Colorado, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of December 1, 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 using the core performance criteria for small banks. This criteria included: a review and assessment of bank's lending to individuals and businesses of different income levels; the concentration of loans in the assessment area and within the various geographies within the assessment area; and, the loan-to-deposit ratio. The *response to complaints* category, the last of the five core performance criteria, was not rated, since the bank has not received any complaints regarding its performance under the CRA. Conclusions for certain performance criteria were based on the results of data compiled from a statistically derived sample of files reviewed for each of the bank's major product lines. An explanation of how each major product line was determined is provided later in this public disclosure.

The analysis disclosed that the majority of the loans sampled were in the assessment area and that the penetration, of loans among individuals, businesses, and geographies of different income levels in the assessment area, was reasonable. The bank's average loan-to-deposit ratio also was found to be reasonable given the bank's size, financial capacity and assessment area credit needs.

The bank's performance under the CRA was last evaluated at the March 25, 1996 examination at which time it was also rated Satisfactory.

DESCRIPTION OF INSTITUTION

Colorado Mountain Bank, with total assets of \$32,506,000 as of the September 30, 1997 Report of Condition and Income (Call Report), operates out of two locations. The main office is located in Westcliffe, Colorado, in Custer County, a mountainous area in the south central part of the state. The branch is located in Fountain, Colorado, in El Paso County, approximately two hours northeast of the main office and just ten miles south of the City of Colorado Springs. Please refer to the section titled *Description of the Bank's Assessment Area* for more details about the bank's operating environment. The bank also owns and operates two deposit-taking automated teller machines at the two office locations.

The bank's size, financial condition, and resources allow it to reasonably meet the credit needs of its assessment area. Although the bank offers a full range of credit products at its two locations, real estate loans, consumer loans, and commercial loans are the primary loan products at the main office. Consumer and commercial loans are the main loan products at the branch. *Table-1* below reflects the overall distribution of the bank's loans portfolio based on the bank's September 30, 1997 Call Report.

Table-1		
DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO AS OF SEPTEMBER 30, 1997		
Loan Type	\$ Amount (In Thousands)	Percentage Of Total Loans¹
Total Real Estate Secured Loans:	12,927	59.70
Secured by 1- to 4-Family Residential Properties	10,944	50.54
Construction and Land Development	959	4.43
Secured by Nonfarm Nonresidential Properties	479	2.21
Secured by Farmland	311	1.44
Secured by Multifamily Residential Properties	234	1.08
Commercial and Industrial Loans	5,231	24.16
Consumer Loans	2,943	13.59
Agricultural Production Loans	431	1.99
Other Loans (Net of any unearned income)	120	0.55
Total Loans	21,652	

¹May not total 100 percent due to rounding

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Colorado Mountain Bank has designated a total of five geographies to be its assessment area. The term geography means a census tract or a block numbering area (BNA) which has been designated as such by the U.S. Census Bureau. An assessment area is defined as the geographic area that bank management has designated as its service area for CRA purposes. For ease of discussion, the bank's assessment area is categorized into two major areas, "Custer County" and "Fountain," as each has its own distinct characteristics and are not contiguous. These two areas are discussed individually or combined as appropriate. A map of the assessment areas follows this public evaluation.

Custer County

The Custer County area encompasses all of Custer County. This area only has one assigned BNA. The bank's main office is located in Westcliffe which is the county seat for Custer County. Other small towns in Custer County include Silvercliffe, Rosita and Wetmore.

According to a community contact, Westcliffe has the largest population of any town in the county.

Custer County is sparsely populated since two national forests comprise a large section of the county. The 1990 census data indicates the population for Custer County totaled 1,926. According to a county official, the population of the area now totals more than 3,900 people. Within the last few years, Custer County has been designated as one of the fastest growing counties in the state. An influx of retirees moving into the county has fueled the local real estate market and has brought some new businesses to the area. According to a community contact, there are almost no new or resale homes in the area priced under \$100,000. There is a need for real estate, consumer and small business loans. There are a large number of ranches in the area; however, there is no significant demand for agricultural loans since most of the ranchers have the financial ability to internally fund their operations.

The local economy continues to be dependent largely on tourism, real estate and ranching. The major employers in the area are the county government and local schools.

Competition for banking business in this community is low. There is a credit union in the assessment area. Competition comes primarily from banks outside the bank's assessment area and in neighboring counties within close proximity to the main bank.

Fountain

The Fountain area, which includes four census tracts in the southeastern section of the Colorado Springs Metropolitan Statistical Area (MSA), is included in the assessment area because the bank's full service branch is located in the City of Fountain. Fountain is located in El Paso County approximately ten miles south of Colorado Springs and is part of the Colorado Springs MSA. In addition, these census tracts also cover parts of the towns of Widefield and Security.

According to 1990 census data, the population in these four tracts totaled 16,871. An official with a local business development and marketing group stated the population has increased substantially since the 1990 census. The total population for Fountain, Security and Widefield now exceeds 42,000.

Population growth has significantly impacted the local housing market. A community group representative indicated that growth has caused a housing shortage and increased real estate values. Information provided by the community contact shows the average price of new and resale homes in 1996 was \$110,000 and \$90,000, respectively. This activity has created a need for real estate loans, along with, small business and consumer loans.

The local economy is doing very well and continues to be heavily influenced by the Fort Carson Military Facility located nearby. The area also benefits from several private employers including SCI, Inc., RMB Products, Inc., Hyponex, Matrics-Logistics, Schlage Lock Company, Eagle-Picher Industries and Logistix.

The banking environment is competitive since there are numerous financial institutions in close proximity of Fountain.

Combined Assessment Area

The single block numbering area covering Custer County is classified as a middle-income geography, as are three of the four census tracts in the Fountain area. Only one geography in the entire assessment area, (the tract within which the Fountain branch is located), is considered a moderate-income geography. There are no low- or upper-income geographies in the assessment area. Further details about the assessment area, including population and housing information, are provided throughout this public evaluation.

The definition of income for the purpose of classifying loans is as follows: low-income is defined as less than 50 percent, moderate-income is at least 50 percent and less than 80 percent, middle-income is at least 80 percent and less than 120 percent, and upper-income and is 120 percent or more of the median family income of the selected area. Income used in categorizing loans made to individuals and within geographies, differ slightly for Custer County and Fountain due to their census classifications. For Custer County, a non-metropolitan area, the median family income for 1997 was estimated to be \$38,700. For the Fountain area, a metropolitan area (Colorado Springs MSA) the median family income for 1997, was estimated to be \$45,300.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s performance under the CRA is Satisfactory. Conclusions for each of the five core performance criteria follow.

Lending in the Assessment Area

This core performance criterion evaluates the concentration of loans within the assessment area. The results of the loan sample showed that a majority of total loans sampled are located in the bank’s assessment area. The analysis was based on data compiled from a statistically derived sample of files. Discussions with management, a review of total loan originations within a 6- and 12-month period, and a review of the bank’s Call Reports were all used to determine the bank’s major product lines. A statistically derived sample of loans was then selected from the bank’s major product lines. As a result, three loan types were sampled: consumer installment, consumer real estate and commercial loans.

As shown in *Table-2*, the overall results of the sampling process revealed that 76 percent of the number and 61 percent of the dollar of loans originated were within the bank’s assessment area. The majority of each loan type sampled was also shown to be in the assessment area. As a result, the bank has met the standards for satisfactory performance. Of the loans outside the assessment area, most were just outside in neighboring tracts and BNAs. The bank draws business from areas in close proximity to the assessment area.

Table-2								
DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
	Inside the Assessment Area				Outside the Assessment Area			
	#	%	\$	%	#	%	\$	%
Consumer Installment Loans	36	78%	185,615	74%	10	22%	66,641	26%
Consumer Real Estate Loans	25	76%	1,555,003	64%	8	24%	872,918	36%
Commercial Loans	30	73%	906,240	54%	11	27%	771,777	46%

Overall Totals	91	76%	2,646,858	61%	29	24%	1,711,336	39%
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Lending to Borrowers of Different Income Levels

This core performance criterion evaluates the volume of loans originated among individuals with varying incomes and business of different sizes. Overall, the distribution of loans sampled showed a reasonable penetration among low- and moderate- income borrowers and small businesses. Given these results, it was determined that the bank has met the standards for satisfactory performance in this criterion. Each major product sampled is discussed below and on the following pages.

Consumer Installment Loans

The bank’s origination of consumer installment loans to individuals of varying income levels is considered strong. The results revealed that 58 percent of the number and 46 percent of the dollar of these loans were to low- and moderate-income individuals. These results compare very favorably to the overall demographics of the assessment area which show that only 42 percent of families are classified as low- and moderate-income.

Consumer Real Estate Loans

The bank’s origination of consumer real estate-purpose loans to individuals of varying income levels is considered reasonable given the local operating environment and the demographics of the area. The overall results for the consumer real estate-purpose loans, originated in the assessment area, showed that 20% of those loans were originated to low- and moderate-income borrowers. This does not compare as favorably as the installment loans did to the overall demographics of the assessment area, which as mentioned previously, show that 42 percent of families in the assessment area are low- and moderate income. However, as shown in *Table-3*, housing costs are not commensurate with incomes of low- and moderate-income individuals. Therefore, low- and moderate-income borrowers are not as likely to qualify for conventional real estate loans. Given this factor, the results for this type of loan appear adequate.

Table-3		
Comparison of Low- and Moderate-Incomes to Housing Costs		
	Westcliffe Area	Fountain Area
Income of a Low-Income Family	Less than \$19,350	Less than \$22,649
Income of a Moderate-Income Family	\$19,350 to \$22,649	\$22,649 to \$36,240
Housing Cost	Averages \$90,000 for a Resale home \$110,000 for a New Home	Homes under \$100,000 are very limited

Small Business Loans

An analysis, of commercial loans originated in the bank’s combined assessment area, showed that 100 percent of the commercial loans sampled were to businesses with gross annual revenues of one million dollars or less. The results also showed a reasonable distribution among business of varying sizes. *Table-4* recaps this dispersion.

Table-4		
DISTRIBUTION OF SMALL BUSINESS LOANS BY REVENUE OF BUSINESS		
Revenue Category	Number of Loans	Percent
Less than or equal to \$100,000	18	45.00
\$100,001-\$250,000	7	17.50
\$250,001-\$500,000	4	10.00
\$500,001-\$750,000	7	17.50
\$750,001-\$1,000,000	4	10.00

Geographic Distribution of Loans

The bank's overall geographic distribution of loans, which focuses on loan penetration among low- and moderate-income geographies in the assessment area, reflects a reasonable dispersion throughout the assessment area given assessment area demographics. As discussed previously, there are no low- or upper-income geographies in the assessment area only one moderate-income geography with the remaining being middle-income geographies. Given this fact, the analysis focused on penetration in the single moderate-income tract.

The bank's overall penetration in the moderate-income tract is satisfactory and the bank has met the criteria for satisfactory performance. As noted in the table on page 8, 15 percent of the number and 10 percent of the dollar volume of all loans sampled were to borrowers residing in that moderate-income census tract. A discussion of each loan type sampled follows. *Table-5*, provides a summary of the sampling results and a comparison to significant demographic data. Please refer to that table, which follows the discussions, for the supporting data used in the analysis.

Consumer Installment Loans

The bank's concentration of consumer installment loans in the moderate-income census tract in the assessment area is considered reasonable given the demographics within the bank's operating environment. As noted in *Table-5*, 22 percent of the number and dollar volume of installment loans sampled were to borrowers residing in that moderate-income census tract. This distribution appears relatively comparable with population demographics which show that 26 percent of total families in the assessment area reside in the moderate-income tract.

Consumer Real Estate-Purpose Loans

The geographic distribution of consumer real estate-purpose loans, to individuals residing in the one moderate-income tract, is reasonable considering the high cost of housing relative to the high percentage of low-and moderate-income families residing in the moderate tract. This is important since, as illustrated in *Table-3* and discussed earlier, the cost of buying a home is not commensurate with income levels of low- or moderate-income borrowers. As a result, low- and moderate-income families can not afford average-priced homes through conventional financing which impacts the number of loans made in that tract. Additional consideration was given to the low percentage of owner-occupied units in that tract which is only 20 percent of total owner occupied units in the assessment area according to 1990 census data. This is considered a mitigating factor since it impacts the availability of housing stock. *Table-5*, which shows this and all the supporting data, also shows a high percentage of rental and vacant units in the moderate-income tract. According to a community contact, the vacant units are likely second homes. These factors provide some justification for the lower penetration of consumer

real estate loans in this tract. Please refer to *Table-5* for details of the supporting data used in the analysis.

Small Business Loans

The bank=s geographic distribution of small business loans to businesses located in the moderate-income census tract appears reasonable given the factors previously discussed. Penetration in the moderate- and middle-income tracts is summarized in Table–5.

Table-5

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA (AA) BY INCOME LEVEL OF TRACTS/BNAs (GEOGRAPHIES) COMPARED TO DEMOGRAPHIC CHARACTERISTICS OF THOSE TRACTS/BNAs

	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	#	\$	#	\$	#	\$	#	\$
Consumer Installment Loans	N/A	N/A	8	40,174	28	145,442	N/A	N/A
<i>% of Category Total</i>	<i>N/A</i>	<i>N/A</i>	<i>22%</i>	<i>22%</i>	<i>78</i>	<i>78%</i>	<i>N/A</i>	<i>N/A</i>
Consumer Real Estate Loans	N/A	N/A	3	86,435	22	1,468,568	N/A	N/A
<i>% of Category Total</i>	<i>N/A</i>	<i>N/A</i>	<i>12%</i>	<i>6%</i>	<i>88%</i>	<i>94%</i>	<i>N/A</i>	<i>N/A</i>
Commercial Loans	N/A	N/A	3	133,598	27	772,642	N/A	N/A
<i>% of Category Total</i>	<i>N/A</i>	<i>N/A</i>	<i>10%</i>	<i>15%</i>	<i>88%</i>	<i>85%</i>	<i>N/A</i>	<i>N/A</i>
Total Loans	N/A	N/A	14	260,207	77	2,386,652	N/A	N/A
<i>% of Total Loans</i>	<i>N/A</i>	<i>N/A</i>	<i>15%</i>	<i>10%</i>	<i>85%</i>	<i>90%</i>	<i>N/A</i>	<i>N/A</i>
# Geographies within the Total AA	N/A		1		4		N/A	
<i>As % of Total Geographies</i>	N/A		20%		80%		N/A	
Number of Families in AA by Geography	N/A		1,316		3,977		N/A	
<i>As % of Total Families in AA</i>	N/A		25%		75%		N/A	
# Low- and Moderate-Income Families in AA	N/A		833		1410		N/A	
<i>As % of Total Families within Respective Geographies</i>	N/A		63%		35%		N/A	
Owner-Occupied Units (OOU's) within AA	N/A		865		3,529		N/A	
<i>OOU's as % of total OOU's in AA</i>	N/A		20%		80%		N/A	
<i>OOU's as % of Total Housing Units in AA</i>	N/A		43%		54%		N/A	
Rental Units by Geographies	N/A		841		1,131		N/A	
<i>As % of Total Housing Units</i>	N/A		42%		17%		N/A	
Vacant Units by Geography	N/A		301		1,856		N/A	
<i>As % of Total Housing Units in AA</i>	N/A		15%		29%		N/A	

Loan to Deposit Ratio

This core performance criteria evaluates the bank=s lending levels compared to other similarly situated and sized financial institutions. The bank=s loan-to-deposit ratio is reasonable given

the bank=s size, financial condition, location, area competition and assessment area credit needs. Therefore, Colorado Mountain Bank meets the satisfactory standards for this performance criterion.

The loan-to-deposit ratio is a quick barometer for gauging whether or not the bank is reinvesting deposits it receives from customers back into the community in the form of loans. The bank=s average net loan-to-deposit ratio for the seven quarters since the previous examination was 73 percent. This ratio is higher than the average for similarly sized financial institutions in close proximity to the bank=s assessment area. During the comparison period, there were 4 other similarly situated financial institutions in the bank=s assessment area with total assets around \$30 million. The average net loan-to-deposit ratio, during the same time frame for those financial institutions, ranged from a low of 34 percent to a high of 83 percent and averaged 58 percent for that timeframe. However, Colorado Mountain Bank only had the third highest average of the four similarly sized and situated banks.

Response to Complaints

The final core performance criteria, which evaluates the bank=s performance in responding to substantiated complaints about its performance in meeting assessment area credit needs, is unrated. The bank has not received any 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

The examination did not reveal any substantive violations of the antidiscrimination laws and regulations.

