

PUBLIC DISCLOSURE

March 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Pikes Peak National Bank
Charter Number 15058**

**2401 West Colorado Avenue
Colorado Springs, Colorado 80904**

**Comptroller of the Currency
1099 18th Street, Suite 2650
Denver, Colorado 80202-1926**

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 **Pikes Peak National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 1, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **“Satisfactory.”**

- C Pikes Peak National Bank’s record of meeting the credit needs of its assessment area is satisfactory.
- C Penetration of the bank’s primary product lines in low- and moderate-income areas is good.
- C The bank actively lends to small businesses.
- C The bank’s loan-to-deposit ratio is low within its peer group, but is reasonable given the bank’s size, financial condition, risk appetite, highly competitive environment, and assessment area credit needs.
- C There was no evidence of discrimination noted during this examination.
- C There were no complaints regarding the bank’s CRA performance noted since the last examination.

DESCRIPTION OF INSTITUTION:

The Pikes Peak National Bank of Colorado Springs (PPNB) is a \$62 million community bank serving the Colorado Springs Metropolitan Statistical Area (MSA). The Colorado Springs MSA is comprised of all of El Paso County, Colorado. The bank has three full-service locations. The main bank is located in west Colorado Springs, in the historic Old Colorado City district. Branches are located in north Colorado Springs and Fountain, Colorado. The bank also operates three Automated Teller Machines (ATMs). All branches and ATMs are in the bank's assessment area. A full range of credit products to consumer and commercial customers are offered.

The bank's market focus is business, residential real estate, and consumer lending. The bank's net loans to total assets was 38% as of December 31, 1998. The percentage distribution of average gross loans since the last examination is outlined in the table below.

Product Type	Percent of Average Gross Loans		
	1998	1997	1996
Commercial Real Estate Loans	39%	36%	40%
1-4 Family Residential Real Estate	22%	21%	19%
Consumer Loans	17%	20%	26%
Commercial Loans	16%	16%	13%
Other Loans	6%	7%	2%

The bank faces strong competition. There are 28 other banks in the MSA, many of which have multiple branches in the area. Among the banks are several branches of large regional banks. There are also credit unions and savings and loans associations. The regional bank branches and a large area credit union are able to provide some products at much better rates due to cost advantages experienced through size efficiencies. The bank offers more traditional products such as 80% home equity loans, compared to some other banks in the area which offer 100% to 125% home equity loans.

PPNB's last CRA examination was performed February 23, 1996, at which time an "Outstanding Record of Meeting Community Credit Needs" rating was assigned.

The bank is not restricted in its ability to meet community credit needs. Product offerings, while less aggressive than some larger institutions, are adequate to meet consumer needs. There are no legal impediments or other factors preventing the bank from lending in its assessment area.

DESCRIPTION OF ASSESSMENT AREA (Colorado Springs MSA):

The bank has designated the Colorado Springs MSA as its assessment area. The MSA is made up of El Paso County, Colorado, and is comprised of 84 census tracts. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Demographic data reflects the following about census tract income characteristics.

Income Level of Tract	Number of Tracts	Percent of Total Tracts	Percent of Families Residing in Tract
Low	2	2%	2%
Moderate	27	32%	24%
Middle	37	44%	44%
Upper	18	22%	30%
Total	84	100%	100%

The 1990 U.S. Census lists population in the assessment area at 397,014. Population in 1997 is estimated at 480,041 by the Pikes Peak Area Council of Governments, a 21% increase. Median family income for the MSA is \$45,800, based upon the updated 1998 median family income information provided by the Department of Housing and Urban Development (HUD).

The military is the largest employer in the area, with estimated military in-service employment in 1997 of 31,000. Service industries are the largest component of earnings and wages in the county. The largest private sector employer is MCI, with over 5,000 employees. There is minimal mining and agriculture industry activity in the area. The economy has been expanding, but is constrained somewhat by labor availability. The unemployment rate in Colorado Springs was 3.5% in 1998.

The housing market in the Colorado Springs area is healthy. The median housing value based on the 1990 U.S. Census is \$82,238. The average home price in 1997 was \$168,500 for a new home and \$134,800 for a resale home according to the Pikes Peak Area Council of Governments. Growth in the market has been strong but has leveled off recently. There is an ample supply of homes to meet demand for an average priced home, however, there is a shortage of affordable housing.

Three community contacts performed by regulatory agencies in 1997 and 1998 were reviewed. These contacts included a local economic development corporation, an area military official, and a local real estate association. In addition, an interview with a community development corporation in the area was performed in conjunction with this examination. Community contacts indicate that the primary credit need in the Colorado Springs area is affordable housing. These sources indicate there is a reluctance by builders to build affordable housing due to strong demand for higher priced homes, which

are more profitable. The community contact interviewed during this examination indicated that there is a continued need for lending to small businesses. Overall, community contacts indicate that financial institutions in the area are doing an adequate job of meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's loan-to-deposit ratio for the past 12 quarters has averaged 43.78%.

The banks used for comparison include four independent banks within the assessment area, ranging in size from \$33.5 million to \$44.6 million which are similarly situated. The 12-quarter average loan-to-deposit ratio for the group was 58.20%, with a high of 78.90% and a low of 37.07%.

PPNB has one of the lowest loan-to-deposit ratios in the peer group. Factors contributing to the bank's low ratio are:

- C The northern branch is located in a highly competitive area.
- C Traditional underwriting standards and hesitance to offer higher risk products in the primary product lines.

Although the bank's loan-to-deposit ratio is low within its peer group, the bank has been successful in targeting its primary product lines to low- and moderate-income individuals and small businesses. Because of this focus, the bank tends to make a large volume of low dollar loans. The average consumer loan size for the period since the last examination is \$9,307 and the average commercial loan size is \$102,520.

Since the last examination, 1,124 consumer loans and 172 commercial loans were originated. The dollar amount of loan originations since the last examination was \$10.4 million for consumer loans and \$17.6 million for commercial loans.

The bank has followed traditional underwriting standards, which is reflected in its product offerings. There are several larger institutions in the assessment area which offer more aggressive products, particularly in the residential real estate market.

Lending in the Assessment Area

The bank's distribution of loans within its assessment area is reasonable. The bank is required to file information with HUD on its residential lending activity under the Home Mortgage Disclosure Act (HMDA). A review of the HMDA loan application register for the past three years, as well as samples of consumer and commercial loans indicates the bank makes a majority of loans within its assessment area.

Lending in the Assessment Area 1996 through 1998			
	HMDA Loan Originations	Consumer Loan Sample	Commercial Loan Sample
In Assessment Area	93%	90%	100%
Outside Assessment Area	7%	10%	0%

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

Consumer Lending

The bank's distribution of loans reflects a strong penetration to individuals of different income levels. We sampled 20 consumer loans made from 1996 through 1998. The sample represents 2.5% of the total dollar of originations and 1.8% of the total number of originations during this time frame. The analysis indicates that PPNB actively lends to individuals of all income levels within the assessment area, with particular emphasis on low- and moderate-income levels. The borrowers were categorized into income levels based on the Colorado Springs MSA median family income for the year in which the loan was originated.

Income Level	Percent of Families by Income Level 1990 U.S. Census	Percent of Consumer Loan Sample
Low	18%	17%
Moderate	20%	33%
Middle	23%	28%
Upper	39%	22%

As the table indicates, 50% of the consumer loans sampled were made to low- and moderate-income families, compared to 38% of the actual population in these brackets. This exceeds those families' representation in the assessment area by 12%. The demand from these income groups also appears to be for lower dollar loans. The average size consumer loan originated from 1996 through 1998 was \$9,307.

Commercial

The bank's commercial loan distribution reflects a commitment to lend to small businesses in the assessment area. We sampled 21 commercial loans made from 1996 through 1998. Annual revenue information was available for 19 of these loans. The sample represents 13.9% of the total dollar of originations and 12.2% of the total number of originations made during this time frame. The volume of small business loans reasonably reflects the small business population in the area.

Revenue Size	Number of Loans	Percent of Loans Reviewed	Percent of Nonfarm Businesses in MSA Reporting Income
Revenues Less Than \$1,000,000	16	84%	92%
Revenues More Than \$1,000,000	3	16%	8%

Residential Real Estate

All HMDA reportable loans originated since the last examination were reviewed during this evaluation. The bank has been successful serving borrowers of different income levels, particularly moderate-income borrowers. Results for the past three years are outlined in the table below.

HMDA Reportable Loan Distribution by Income Level of Borrower				
	% 1996 by Number	% 1997 by Number	% 1998 by Number	% of Families 1990 Census
Low	10%	18%	8%	18%
Moderate	41%	23%	29%	20%
Middle	21%	20%	37%	23%
Upper	24%	38%	22%	39%
Not Reporting Income	4%	1%	4%	

Although lending to low-income borrowers has lagged, the bank has been strong in lending to moderate-income families. Lending to moderate-income borrowers has exceeded demographics for the past three years. Loan demand from low- and moderate-income borrowers is influenced by the availability of affordable houses for sale. As noted in the description of the assessment area, the volume of affordable housing in the area is small. One indicator of affordable housing is the level of owner-occupied housing within low- and moderate-income census tracts, since low- and moderate-income census tracts generally have lower priced housing available. Only 1.3% of owner-occupied housing in the MSA is located in low-income tracts and 18.8% in moderate-income census tracts. The level of renter-occupied housing and vacant housing in these census tracts is high relative to middle- and upper-income tracts.

Geographic Distribution of Loans Within the Assessment Area

Originations since the last examination reflect satisfactory geographic distribution. The table below highlights the distribution by number of all originations (regardless of type) for 1996 through 1998 within each census tract designation, as a percentage of total originations. This chart is based on the bank's internal tracking system.

Census Tract Designation	Percent of Total Census Tracts	Percent of 1996 Originations	Percent of 1997 Originations	Percent of 1998 Originations
Low	2%	2%	1%	1%
Moderate	32%	33%	28%	32%
Middle	44%	47%	48%	48%
Upper	22%	18%	23%	19%

Consumer and Commercial

In addition, we sampled the geographic distribution of loans by loan type. A sample of consumer and commercial loans originated since the last examination indicate the bank has a reasonable geographic distribution of loans to low- and moderate-income areas. The table below indicates the results based on number of originations.

Census Tract Designation	Percent of Business in Census Tracts	Percent of Commercial Loan Sample	Percent of Families Residing in Census Tract	Percent of Consumer Loan Sample
Low	3%	10%	2%	17%
Moderate	33%	52%	24%	33%
Middle	36%	19%	44%	28%

Upper	28%	19%	30%	22%
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Residential Real Estate

The geographic distribution of the residential real estate loans are also reasonable within the census tract distribution in the MSA. The table below highlights HMDA loans from 1996 through 1998 based on the number of originations.

Census Tract Designation	% Owner Occupied Housing	% of 1996 HMDA Origination	% of 1997 HMDA Origination	% of 1998 HMDA Originations
Low	1%	7%	0%	0%
Moderate	19%	34%	34%	29%
Middle	44%	38%	36%	57%
Upper	36%	21%	30%	14%

PPNB has a satisfactory distribution to low- and moderate-income tracts, as compared to the demand in the tracts based on owner occupied housing. Renter occupied housing exceeds owner occupied units in both low- and moderate-income tracts.

Response to Complaints

No complaints have been received regarding the bank's CRA performance since the last examination.

Record of Compliance with Antidiscrimination Laws

A concurrent fair lending examination did not identify any evidence of prohibited discriminatory practices. We did not identify any violations involving illegal discrimination or any practices intended to discourage applicants applying for credit. As part of our examination, we used a sample of automobile loan applications comparing female denials against male approvals. Our sample did not identify any disparate treatment.