

PUBLIC DISCLOSURE

May 3, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peoples National Bank
Charter Number 21717**

**5175 North Academy
Colorado Springs, Colorado 80918**

**Comptroller of the Currency
Midwestern District
2345 Grand Boulevard, Suite 700
Kansas City, Missouri 64108**

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 **Peoples National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of May 3, 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.**"

The bank has demonstrated the ability to meet the credit needs of the community, including low- and moderate-income individuals and small businesses. Specifically:

- < A substantial majority of the bank's loans and other lending related activities are in the assessment area.
- < The bank's loan-to-deposit ratio is more than reasonable given the bank's size and financial condition.
- < The geographic distribution of loans reflects reasonable dispersion throughout the assessment area given the bank's relatively recent entrance into the Colorado Springs market.
- < The bank's penetration of loans to borrowers of different income levels and businesses of different sizes is satisfactory.
- < We found no evidence of discrimination or disparate treatment at this examination.
- < No complaints regarding the bank's CRA performance have been filed since the last CRA examination.

DESCRIPTION OF INSTITUTION:

Peoples National Bank (PNB) is a \$143 million community bank serving the Colorado Springs Metropolitan Statistical Area (MSA). The Colorado Springs MSA is comprised of all of El Paso County, Colorado. PNB is owned 100% by Peoples, Inc., which reported total assets of \$482 million on December 31, 1998. In addition to PNB, Peoples, Inc. owns Peoples Bank of Taos, New Mexico; Commercial Bank of Leadville, Colorado; Peoples Bank of Overland Park, Kansas; and Peoples National Bank & Trust, Ottawa, Kansas.

PNB's main office is located on North Academy in Colorado Springs. Besides the main office, PNB operates 7 full service branches, a drive-thru facility in downtown Colorado Springs, and a limited service branch at Lewis Palmer High School. The seven branches are located in Widefield, Gleneagle, Monument, downtown Colorado Springs, a Safeway store in Monument, and 2 Super Wal Mart stores in Colorado Springs. The bank also operates eight Automated Teller Machines (ATMs). All branches and ATMs are in the bank's assessment area with 2 branches located in moderate income geographies. A full range of credit products to consumer and commercial customers are offered. Additional banking services include bank by phone and Internet banking with online bill paying capabilities.

The bank also has a wholly owned subsidiary, Peoples Mortgage Corporation (PMC), based in Colorado Springs. PMC's primary activities are to originate, process, and purchase residential mortgage loans for sale in the secondary mortgage markets. PMC also services a substantial amount of the loans it sells. In 1998, PMC originated \$313 million in loans while its servicing portfolio totaled \$549 million at year-end 1998.

Since the last CRA examination, the bank purchased and merged with Colorado Springs Savings and Loan in 1997. With this acquisition, the bank opened three additional branches and a drive-up facility in downtown Colorado Springs. The new branches are located on North Academy in Colorado Springs, in downtown Colorado Springs, and in Widefield. In August 1997, the bank opened a limited service branch in a Monument high school. In 1998, the bank opened two additional branches located in Super Wal Mart stores in Colorado Springs. In June 1998, the bank moved its main office from Monument to Colorado Springs, Colorado.

The bank's market focus is business, commercial real estate, and residential real estate lending. The bank's net loans to total assets was 66% as of December 31, 1998.

The composition of the loan portfolio by product type is outlined in the table below.

Product Type	Percent of Gross Loans		
	1998	1997	1996
Commercial Real Estate Loans	22%	32%	15%
1-4 Family Residential Real Estate	62%	48%	60%
Consumer Loans	2%	2%	3%
Commercial Loans	10%	16%	21%
Other Loans	3%	2%	1%

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 loan 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 received a *"Satisfactory Record of Meeting Community Credit Needs"* in the prior CRA Performance Evaluation dated September 3, 1996.

The bank is not restricted in its ability to meet community credit needs. Product offerings 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 El Paso County, Colorado, as its assessment area. The county makes up the Colorado Springs MSA which 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. All of the low- and moderate-income tracts lie within the City of Colorado Springs.

Demographic data reflects the following census tract 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 agricultural 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 the demand for an average priced home, but there is a shortage of lower priced housing.

We reviewed community contacts performed by regulatory agencies in 1997, 1998, and most recently, in March 1999. These contacts included a local real estate association, an area military official, an economic development corporation, and a local community development corporation. In conjunction with this examination, we interviewed an executive with a local business and industry development organization. These community contacts indicated that affordable housing remains a problem because builders choose to build higher priced homes which provide a better profit margin. In addition, they said that lending to small and emerging businesses remains an ongoing need. Overall, community contacts said 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 more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's loan-to-deposit ratio for the past 10 quarters has averaged 91%. This substantially exceeds the loan-to-deposit ratios for similarly situated banks in the assessment area. The banks used for comparison include six independent banks within the assessment area, ranging in size from \$42 million to \$222 million. The banks were selected based on location, similar business focus, and loan products offered. The 10-quarter average loan-to-deposit ratio for the group was 55%, with a high of 78% and a low of 37%.

Lending in the Assessment Area

On a consolidated basis, a significant number of loans on the bank's books are originated by Peoples Mortgage Company (PMC). Due to the uniqueness of its operations, PMC originates most of its loans out of the bank's assessment area. To more accurately reflect the bank's lending practices, we excluded PMC originations from our analysis of lending in the assessment area.

The distribution of loans within the bank's assessment area is excellent. 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 a sample of 22 commercial loans, indicates that the bank makes a substantial majority of loans within its assessment area.

Lending in the Assessment Area 1996 through 1998				
	Number of Loans Originated	Percent of Number	Dollar Amount Originated	Percent of Dollars
In Assessment Area	98	97%	4,357	99%
Outside Assessment Area	3	3%	57	1%
TOTAL	101	100%	4,414	100%

Lending to Borrowers of Different Income Levels and Businesses of Different Sizes

Residential Real Estate Lending

The bank's distribution of loans reflects a satisfactory penetration among individuals of different income levels. We reviewed all HMDA reportable loans originated by the bank and mortgage company from 1996 through 1998. Results for the past three years are outlined in the table below.

HMDA Reportable Loan Distribution by Income Level of Borrower					
Income Level	# of Loans	% of Loans	\$ Amount of Loans	% of Dollar Volume	% of Families in the Assessment Area (1990 Census Data)
Low	119	4%	8,118	2%	18%
Moderate	534	19%	49,101	14%	20%
Middle	816	28%	93,309	26%	23%
Upper	1132	39%	169,283	48%	39%
Income not reported	282	10%	34,144	10%	
TOTAL	2,883	100%	353,955	100%	100%

The bank's opportunities to originate owner-occupied real estate loans to low- and moderate-income borrowers are limited by high housing costs resulting in a limited supply of affordable housing. The 1997 average home price for a new home was \$168,500 and \$134,800 for an existing home. Given the median family income of \$45,800, it is cost prohibitive for low- and moderate- income individuals to purchase a home in El Paso county.

Commercial Loans

The bank's commercial loan distribution reflects a commitment to lend to small businesses within the assessment area. We sampled 22 commercial loans totaling \$1,940 million originated in 1996 through 1998. Annual revenue information was available for 20 of these loans. Given the short time in which the bank has been competing in the Colorado Springs market, the volume of small business loans adequately reflects the small business population in the area.

Distribution of Commercial Loans to Business by Gross Annual Revenue					
Annual Revenue Size of Business	\$ Amount (000's)	Percent of Dollar Volume	Number of Loans	Percent of Number of Loans	Percent of Nonfarm Businesses in MSA Reporting Income
Revenues Less than \$1,000M	853	44%	14	64%	76%
Revenues More than \$1,000M	1,067	55%	6	27%	6%
Income Data Not Reported/ Unavailable	20	1%	2	9%	18%

Geographic Distribution of Loans Within the Assessment Area

Residential Real Estate Loans

The bank's geographic distribution of residential real estate loans reflects a reasonable dispersion throughout the assessment area. Our review of residential real estate loans shows that the bank has made approximately 14% by number and 11% by dollar volume, of its loans in low- and moderate-income geographies. This compares adequately to area demographics. Opportunities to lend in both the low- and moderate- income tracts is limited as renter occupied housing exceeds owner occupied units in these tracts. Demographic data shows that only 1% of owner-occupied housing in the MSA is located in low-income tracts and 19% is in moderate-income census tracts.

The table below highlights the distribution of HMDA reportable loans originated by the bank and mortgage company from 1996 through 1998.

Distribution of HMDA Loan Originations from 1996 through 1998					
Census Tract Designation	# of Loans	% of Loans	\$Amount	% of Dollar Volume	% of owner occupied housing
Low	30	1%	2,229	1%	1%
Moderate	377	13%	34,970	10%	19%
Middle	1,198	42%	135,206	38%	46%
Upper	1,278	44%	181,550	51%	34%
TOTAL	2,883	100%	353,955	100%	

The mortgage company participates in several programs designed to assist low- and moderate- income families to purchase homes. These programs include Colorado Housing and Finance Authority, Colorado Rural Housing Development Corporation, Federal Home Loan Bank, Guaranteed Rural Housing Corporation, and the El Paso County Bond. In 1998, the mortgage company originated \$23MM in loans using these programs.

Commercial Loans

The bank's geographic distribution of commercial loans reflects adequate dispersion throughout the assessment area. There is minimal opportunity for any commercial lending in the low income tracts as one tract is primarily vacant, railroad land. While lending in moderate-income areas has lagged, the bank is faced with significant competition from other financial institutions who have a longtime, established presence in Colorado Springs. The bank only entered the Colorado Springs market in 1997 and did not relocate its main office until 1998. We sampled 21 commercial loans totaling \$1,933 million originated within the bank's assessment area in 1996 through 1998.

The table below shows the results of our sample.

Distribution of Commercial Loan Originations from 1996 through 1998					
Census Tract Designation	# of Loans	% of Loans	\$Amount	% of Dollar Volume	% of Businesses in Tracts
Low	1	5%	29	2%	3%
Moderate	1	5%	41	2%	33%
Middle	12	57%	1,113	57%	36%
Upper	7	33%	750	39%	28%
TOTAL	21	100%	1,933	100%	100%

Response to Complaints

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

Record of Compliance with Antidiscrimination Laws

The bank is in substantial compliance with all fair lending laws and regulations. As part of our concurrent fair lending examination, we reviewed loan policies and a sample of 30 home equity loans (Equicheck). We compared married customers against unmarried customers for disparate treatment. We did not find any evidence of discrimination or disparate treatment.