



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

May 7, 2001

COMMUNITY REINVESTMENT ACT

PERFORMANCE EVALUATION

**First National Bank of Paonia
Charter No. 6671**

**133 Grand Avenue
Paonia, CO 81428**

**Comptroller of the Currency
Denver Field Office
1099 18th Street, Suite 2650
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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 National Bank of Paonia, CO as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of May 7, 2001. 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**.

First National Bank of Paonia (FNB) has a Satisfactory record of meeting credit needs within the community. This rating is supported by the following:

- The loan-to-deposit ratio meets the standards for satisfactory performance.
- The bank's level of lending within its assessment area is reasonable.
- The distribution of loans to borrowers of different incomes and businesses of different sizes is satisfactory.
- The geographic distribution of loans to businesses and consumer borrowers is adequate.

DESCRIPTION OF INSTITUTION

FNB is a commercial intrastate bank with total assets of \$38 million as of December 31, 2000. FNB is wholly owned by North Fork Holding Co., a one-bank holding company headquartered in Paonia, CO. North Fork's total assets are \$2.8 million as of December 31, 2000. FNB does not have any operating subsidiaries. They have no affiliate relationship activity considered in this evaluation. The last Community Reinvestment Act Examination was performed April 30, 1996, when the bank received a "Satisfactory" rating.

The bank operates its main office in Paonia, Colorado. The bank has an ATM on the bank's premises. They have a loan production office (LPO) located in Delta, Colorado. It was opened January 17, 1999. FNB's primary focus is small business and real estate lending. The bank offers a range of products, including commercial, real estate, construction, and consumer loans.

A bank-prepared Trade Area and Account Analysis Report as of December 31, 2000, reflects the breakdown of the loan portfolio by loan type as a percentage of total loan dollars. Commercial loans are 31%, residential real estate loans are 32%, construction loans are 13%, other consumer loans are 8%, agriculture loans are 11%, and SBA purchased loans and municipal loans total 5%. Tier 1 capital as of December 31, 2000, is \$2.3 million.

FNB is not under any financial or legal impediments that would impact the bank's ability to help meet the credit needs its assessment area.

DESCRIPTION OF DELTA COUNTY ASSESSMENT AREA

FNB has designated its assessment area (AA) as Delta County. Delta County is situated in a mountain valley in the west central part of the State of Colorado. The county is largely rural and not located in a metropolitan statistical area. Management provided us with 2000 Census information reflecting that the county population has increased 37% since 1990 and has approximately 28,000 residents. Fifty percent of the population resides in unincorporated areas of the county. In addition to the town of Paonia, the county also includes the towns of Delta, Cedaredge, Crawford/Maher, Hotchkiss/Lazear, Cory, Austin, Eckert, and Surface Creek.

Delta County is divided into five block numbering areas (BNAs). Two are moderate-income BNAs and three are middle-income BNAs. The assessment area does not have any low- or upper-income BNAs. Paonia is in a middle-income BNA. The bank's loan production office in Delta is in a designated middle-income BNA, but the office is located on the edge of a moderate-income BNA. The bank's assessment area meets the requirements of the regulation.

The local economy is stable and dependent on tourism, mining, and fruit production. Major employers include the county government, county school district, county hospital, and area coal mines. Retail and service industry jobs also provide significant employment in the area. The Colorado Department of Labor reflects a 2000 average unemployment rate for Delta County of 3.8%, which is higher than the state unemployment rate of 2.8%.

The Colorado Housing and Urban Development (HUD) updated median family income for 2000 is \$42,300. Based on 1990 U.S. Census data, there are 6,235 families in the assessment area of which 27% are low income, 24% moderate income, 23% middle income, and 26% upper income. Nineteen percent of the county households are below the poverty level. Twenty-two percent of households are retirees. The average sales price of a single-family home in Delta County in 1999 was \$107,000.

FNB has competition from 10 financial institutions in Delta County. This includes credit unions, state banks, and branches where the main bank is located in another county. Of these institutions, four are similar in size and product offerings to FNB. Bank-generated reports reflect that FNB Paonia holds approximately 10% of the total bank deposits in Delta County.

We contacted a local business community leader and discussed area credit needs. We also reviewed other recent community contacts performed by the Federal Reserve Bank regarding credit needs. While the majority of credit needs are being met by local financial institutions, additional financial and home ownership counseling for borrowers would be beneficial.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB satisfactorily meets the credit needs of its AA, including low- and moderate-income individuals and areas, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

- The bank's loan-to-deposit ratio meets the standards for satisfactory performance.

The bank's average loan-to-deposit ratio for the last 15 quarters is 79%. Four other area financial institutions of similar size and characteristics have 15 quarter loan-to-deposit averages of 68%, 78%, 80%, and 87%. These institutions are state banks. Other area institutions are branches of banks with significantly larger asset size and are not suitable for comparison.

Lending in the Assessment Area

- The bank's level of lending within its assessment area is reasonable.

FNB's level of lending is reasonable given the bank's size, rural location, and assessment area needs. Our analysis of lending in the assessment area included testing a random number of commercial and real estate loans granted since the last examination. A majority of the number of commercial loans we sampled are located within the assessment area. However, distribution by dollar amount of commercial loans reflects that the larger loans are extended to businesses outside the bank's assessment area. Updated business demographic data reflects that 90% of the businesses in Delta County are designated small business, with revenues below \$1 million. FNB extends loans to small businesses within their assessment area, one of their primary lending objectives. Our sample identified only three large businesses in the assessment area.

The sample of real estate loan distribution reflects that a majority of the loans are in the assessment area by number and by dollar amount. The following table demonstrates the distribution of commercial and real estate loans originated inside FNB’s assessment area.

LENDING WITHIN THE ASSESSMENT AREA		
Loan Type	Loans Made in AA Based on Number of Loans in Sample	Loans Made in AA Based on Dollar Amount of Loans in Sample
Commercial Loans	60%	30%
Residential Real Estate Loans	74%	81%

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

- The distribution of loans to borrowers of different incomes and businesses of different sizes is satisfactory.

Commercial loan originations within the bank’s AA satisfactorily demonstrate that the bank is extending loans to businesses of various sizes, with the majority to small businesses. We noted that 76% of the loans were to businesses with revenues under \$250,000. Lending performance to small businesses is reasonable when compared to business demographics of the area. The following table reflects the distribution of loans by business revenue size and dollar amount of loan.

DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE					
Revenue Size	Number of Loans	Percentage of Loans Based on Number	By Loan Size (\$000’s)	Percent of Loans Based on Dollar Amount	Reported Non-Farm Businesses in AA by Revenue Size
Less than \$1 Million	22	88%	943	88%	91%
Greater than \$1 Million	3	12%	133	12%	4%
Revenue Not Reported	0	--	0	--	5%

The table below reflects the distribution of residential-secured loan products to borrowers of different income levels.

DISTRIBUTION OF REAL ESTATE LOANS BY INCOME LEVEL				
	Borrower Income			
	Low	Moderate	Middle	Upper
Distribution of Families in AA by Income Level	27%	24%	23%	26%
Loan Sample by Number	6	8	8	10
Loan Sample by Percentage	20%	20%	27%	33%

The distribution of real estate loans reflects that there is a reasonable penetration of loans to low- and moderate-income families. Although loans to low-income families are below area demographics, it is reasonable because data indicates that 19% of the low-income population is below the poverty level, making it difficult to qualify to purchase these products. Loans to moderate-income borrowers nearly meets the demographic data and is adequate.

In 2000, the bank made low interest loans available to potential homeowners in the moderate-income area of Delta so that they could tie into the town’s sewer system. Although they only received two applications, this service provided additional home ownership opportunities for those low- and moderate-income borrowers in the area.

Geographic Distribution of Loans

- Geographic penetration of business and residential loans in the assessment area is adequate.

Our analysis of sampled loans reflects that loan penetration in middle-income BNAs is above area demographics and satisfactory, but penetration in moderate-income areas is weak. Forty percent of the AA is designated moderate income and sixty percent middle income. The percent of loans made, by both number and dollar amount, are significantly below demographics in the moderate-income BNA. The moderate-income areas of Delta County are located on the western and northern side of the county, while the city of Paonia is on the eastern side of the county.

There are several mitigating factors that explain this performance. This includes the rural nature of the moderate-income BNAs, the bank’s recent opening of the LPO in Delta, and increased competition in the Delta area. This also includes the physical barrier of driving through the mountains to reach the bank in Paonia. For this reason, FNB opened an LPO in Delta two years ago. It is not a full-service banking facility and depositors have to bank by mail, further limiting their contact with the bank. As of December 31, 2000, only 10% of FNB’s total deposits are from the two moderate-income BNAs. This is consistent with the percentage of loans originated in moderate-income BNAs. FNB is still in the process of making its presence known in Delta and Cedaredge. Delta, the largest town in Delta County has six financial institutions and competition is strong.

The following table reflects penetration of the bank's business loans in the assessment area.

COMMERCIAL (NON-FARM) LOANS				
Income Tract Levels	BNAs in AA by Income Tract	Non-farm Business Distribution in BNA's	% of Loans Made by Number	% of Loans Made by Dollar Volume
Moderate	2	45%	12%	9%
Middle	3	55%	88%	91%
Total	5	100%	100%	100%

The following table reflects penetration of the bank's real estate loans in the bank's assessment area.

RESIDENTIAL REAL ESTATE LOANS			
Income Tract Levels	BNAs in AA by Income Tract	Percent Owner-Occupied Housing by Income Tract	Distribution of Sample Loans by Percentage
Moderate	2	44%	13%
Middle	3	56%	87%
Total	5	100%	100%

Real estate secured loans extended by FNB also reflect a majority are extended inside the middle-income census tracts. Again, the mitigating factors discussed above explain the low number of loans in the moderate-income BNAs. FNB has offered special low interest loans in the moderate-income BNA outside of Delta to help potential homeowners tie in to the existing sewer system. Offering this loan product reflects the bank's willingness to respond to borrowers' needs in the moderate-income areas of the county.

Responses to Complaints

- FNB has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

Fair Lending Review

We analyzed 1997-2001 small business and residential real estate lending data, public comments, and consumer complaint information, according to the OCC's risk-based fair lending approach. Our analysis revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with the CRA evaluation this year. The previous comprehensive fair lending examination was performed in conjunction with our Consumer Compliance examination dated May 13, 1996.