PUBLIC DISCLOSURE

August 19, 2002

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

MOUNTAIN STATES BANK
RSSD# 230553

1636 EAST COLFAX AVENUE
DENVER, COLORADO 80218

Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198

NOTE: **This document is an evaluation of this 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. 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.**

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GENERAL INFORMATION

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The rating of the bank was assessed under the following five core criteria developed for evaluating Community Reinvestment Act (CRA) performances of small banks:

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

Conclusions for each performance criterion were based on data compiled from a statistically-derived sample of files for each major product line. Discussions with bank management, a review of the bank's Report of Condition and Income (Call Report), and a review of the volume of loan originations were used to determine the major product lines of the bank. As a result, the two loan types sampled for this evaluation included those designated as consumer real estate loans and commercial loans.

Mountain States Bank's loan-to-deposit ratio reflects a reasonable effort to extend credit in a highly competitive banking market consistent with safe and sound banking practices. The analysis shows that a majority of lending activity is within the bank's assessment area and this lending reveals a reasonable penetration among borrowers of different income levels and to businesses of different revenue sizes. The geographic distribution of loans also reflects a reasonable dispersion throughout the assessment area. Finally, the response to complaints criterion was not rated as the bank has not received any complaints about its performance under CRA.

DESCRIPTION OF MOUNTAIN STATES BANK

Mountain States Bank is a community bank located approximately one mile east of downtown Denver on Colfax Avenue, in Denver, Colorado. The bank operates out of a single location with no physical branch locations. However, the bank has chartered four mobile branches, which are bank-owned vehicles that travel within a 25-mile radius of the bank collecting deposits for the bank's commercial customers. The bank operates one full-service automated teller machine (ATM) at its main office and a cash-dispensing ATM in the lobby of the Kaiser Permanente Franklin Business Office Medial Building located approximately two miles from the bank. The bank also has a trust department.

The analysis of the bank's CRA performance considers the bank's financial impediments, local economic conditions, and demographics, including the competitive environment in which the bank operates. Although Mountain States Bank is subject to strong competition from other financial institutions within its assessment area, there are no legal impediments that impact the bank's ability to lend. The bank's lending activity by dollar amount is primarily devoted to commercial and consumer real estate financing. According to the March 31, 2002 Call Report, the bank's total assets were $274,983,000, including loans totaling $143,499,000 and deposits totaling $237,270,000. Table 1 illustrates the breakdown of the bank's loan portfolio.

TABLE 1
DISTRIBUTION OF LOANS IN MOUNTAIN STATES BANK'S LOAN PORTFOLIO AS OF MARCH 31, 2002

Type of Loan			Amount ($000s)	Percent
Loans Secured by Real Estate:			103,152	72
	Amount ($000's)	Percent		
Loans secured by 1- to 4-family residential properties	48,507	47		
Construction and land development	8,106	8		
Secured by nonfarm, nonresidential properties	36,836	36		
Loans secured by multifamily residential properties	9,703	9		
Consumer Loans			12,666	9
Commercial Loans			27,636	19
Other Loans			45	< 1
TOTAL			**143,499**	**100**

The bank's performance under the CRA was last evaluated at the August 12, 1998 examination conducted by the Federal Deposit Insurance Corporation (FDIC), at which time it was also assigned a satisfactory rating.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Denver is the capital city and population center of Colorado. It is a densely populated urban area that is culturally, socially, and financially diverse. The bank defines its assessment area as all of Denver County, which is located in the Denver Metropolitan Statistical Area (MSA). The city of Denver encompasses the same geographic area as Denver County.

The assessment area is comprised of 181 census tracts. Twenty-nine tracts are low-income, 46 tracts are moderate-income, 43 tracts are middle-income, 23 tracts are upper-income, and 40 tracts are not categorized. The noncategorized tracts contain no population and less than one percent of the total businesses in the assessment area.

Based on 2000 census data, the population of Denver County is 554,636, which is an increase of 19 percent from the 1990 census. Denver is highly diverse in terms of the racial and economic composition of its residents and the size, complexity, and industry sectors of its businesses. The county includes a diverse mix of industries including telecommunications, information technology, health services, transportation, education, tourism, and government. Competition for financial services is strong, including bank and non-bank entities with both local and multi-state foci. The bank is located in an upper-income census tract directly in the center of the assessment area. The bank's assessment area does not arbitrarily exclude any low- or moderate-income areas. Characteristics of the bank's assessment area are summarized in Table 2.

Table 2
CHARACTERISTICS OF BANK'S ASSESSMENT AREA
(Based on 1990 Census Data)

Total number of census tracts (CTs)	181
	Number of CTs
Low-Income	29
Moderate-Income	46
Middle-Income	43
Upper-Income	23
Not categorized	40
Total Population	467,610
Median-Family Income (2002 HUD)	$69,900
Percent of Low-Income Families	29
Percent of Moderate-Income Families	21
Percent of Middle-Income Families	21
Percent of Upper-Income Families	29
Housing Types	
Owner-Occupied	43
Rental Occupied	45
Affordability Ratio	35%
(The affordability ratio is calculated by dividing Median Household Income by Median Housing Value)	
Total Businesses	32,858
Percent of Businesses < $500,000 in Total Revenue	76
Percent of Businesses < $1,000,000 in Total Revenue	84

The city has been positively impacted by significant revitalization efforts in both residential and commercial neighborhoods during the past ten years. The area has also experienced a robust economy and below national unemployment levels since 1991. Recently, however, the area has been affected by an economic slowdown, and the unemployment rate has risen while employment growth has stagnated. Affordable housing remains a major issue. According to the Colorado Affordable Housing Partnership, the median home price has risen 158 percent since 1990, while wages have increased by only 50 percent. Average rent prices have also increased substantially, having grown 131 percent during the same time period. Additionally, there is a shortage of affordable housing units in the area. Homebuilders cite the difficulty in building a home for less than $150,000 given the rise in material costs and state that there are often regulatory barriers to constructing affordable housing units, such as cumbersome zoning and permit requirements.

Members of the community were interviewed during this review to gain perspective on local economic conditions and potential credit needs. Community contacts included the director of a local community development corporation with a focus on affordable housing and an individual from a small business development center. These contacts supported information obtained on the local economy and the housing market.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

This core performance criterion evaluates the reasonableness of the bank's loan-to-deposit ratio in light of performance context information, including the institution's capacity to lend, demographic and economic factors present in the assessment area, and the availability of lending opportunities.

The bank's average quarterly loan-to-deposit ratio since the prior examination (16 quarters) is 62.12 percent. This ratio has increased considerably from the 46.95 percent figure cited in the August 12, 1998, CRA Performance Evaluation. This increase is indicative of management's desire to increase its lending activity and of increased demand for credit in the assessment area. However, the bank continues to struggle with the effects of urban sprawl on its customer base. As the bank has continued to operate a single location since 1947, some of the customer base it acquired during its early years of operation has moved out of Denver to the suburban areas. The bank chartered mobile, deposit-taking branches in order to retain the deposits of some of these customers. However, some loan activity continues to be lost to other local, more conveniently located, competitor banks. Due to the bank's size, yet single office structure, it is difficult to assimilate relevant peer bank data. Nevertheless, loan and deposit data of nine banks within the Denver metropolitan area of similar size and with a small network of branches was compiled. The sixteen-quarter average loan-to-deposit ratio for these banks is 72.03 percent. This figure is similar to the national peer average loan-to-deposit ratio of 73.31 percent for the same period. The bank's ratio of 58.82 percent as of March 31, 2002 is slightly higher than the 50.15 percent ratio for Denver MSA banks in the same peer group. In consideration of the bank's performance context, the bank's loan-to-deposit ratio is reasonable and meets the standards for a satisfactory rating for the loan-to-deposit ratio performance criterion.

Lending in the Bank's Assessment Area

This core performance criterion evaluates the concentration of loans originated by the bank in its assessment area. An analysis was performed based on data compiled from the statistically-derived sample of loans. As shown in Table 3, a majority of loans were originated in the bank's assessment area.

Table 3
DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA

Type of Loan	Inside the Assessment Area				Outside the Assessment Area			
	Number of Loans	%	$ Amt. of Loans $(000)	%	Number of Loans	%	$ Amt. of Loans $(000)	%
Consumer Real Estate	28	72	3,831	62	11	28	2,332	38
Commercial	26	62	3,535	77	16	38	1,075	23
TOTAL	54	67	7,366	68	27	33	3,407	32

By number, 72 percent of the real estate loans and 62 percent of the commercial loans were originated in the bank's assessment area. By dollar, 62 percent of the real estate loans and 77 percent of the commercial loans were made inside the assessment area. The opportunities for originating consumer real estate loans are somewhat limited in the assessment area, as only 43 percent of the total housing units are owner occupied. Additionally, the bank originates all long-term mortgage loans on the secondary market, and thus, these originations would not be reflected in the bank's loan portfolio. As mentioned previously, many of the bank's original commercial customers have moved out of Denver to offices in the suburban areas. Some of these customers have maintained relationships with Mountain States Bank and thus, loans to these customers are originated outside of the bank's assessment area. These factors contribute to lower percentages of loan originations inside the bank's assessment area. Community contacts indicated that the lending needs of the community were being met by the local financial institutions as well. Therefore, the bank meets the standards for a satisfactory rating for this performance criterion.

Geographic Distribution of Loans

This core performance criterion focuses on the bank's penetration among census tracts of different income levels in the assessment area. The geographic distribution of the bank's real estate loans reflects a reasonable dispersion throughout the assessment area. As shown in Table 4, 39 percent of the residential real estate loans originated by the bank were in low- and moderate-income tracts. Fifty-two percent of the total families in the assessment area are located in these tracts. Within these tracts, there are a limited number of affordable housing units available for purchase, as an average of only 34 percent of the housing units are owner-occupied. Additionally, 13 percent of the families in the assessment area are below the poverty level. Many of these families reside within the low- and moderate-income tracts and would not have the financial resources with which to obtain a real estate loan. Internally, the bank offers only balloon mortgage loans. All long-term mortgage loans are funded through a secondary market vendor. The secondary market loans are not reflected in the bank's balance sheet but would be representative of additional lending originated across all census tracts. Since January 2001, the bank has funded 110 real estate loans through the secondary market. Of those originated inside the assessment area, 23 percent were in low- and moderate-income tracts.

The geographic distribution of the bank's commercial loans reflects an excellent dispersion throughout the assessment area. A strong 70 percent of the small business loans originated by the bank are in the low- and moderate-income tracts. This compares favorably with the percentage of businesses located within these tracts of 49 percent.

Table 4
DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF CENSUS TRACT

Loan Type	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	#	$	#	$	#	$	#	$
Real Estate Loans (28 Total)	6	473	5	1,002	12	2,050	5	306
Percent of Total	21	12	18	26	43	54	18	8
Small Business Loans (26 Total)	6	708	12	1,992	4	330	4	506
Percent of Total	23	20	47	57	15	9	15	14
Percentage of Families by Income Level of Census Tract	18		34		33		15	
Percentage of Businesses by Income Level of Census Tract	21		28		35		16	
Percentage of Total Tracts	21		33		30		16	

The bank meets the standards for a satisfactory rating for this performance criterion.

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

This core performance criterion evaluates the bank's loan originations to borrowers of different income levels, particularly low- and moderate-income individuals, and to businesses of different sizes based on their reported gross annual revenues. The distribution of loans in the bank's assessment area represents a good penetration to individuals of different income levels and to businesses of different sizes.

Consumer Real Estate Loans

Table 5 shows that 50 percent of the number and 35 percent of the dollar amount of the loans sampled in the assessment area were to low- and moderate-income borrowers. This compares similarly to the demographics of the assessment area, which indicate that 50 percent of the families are low- and moderate-income. Again, the bank offers long-term residential real estate loans only through a secondary market vendor. These originations were not considered in the bank's loan sample, but would have augmented the overall volume of consumer real estate loan originations across all income levels of borrowers. Therefore, the overall penetration of loan originations to borrowers of different income levels is considered reasonable.

Table 5
PERCENTAGE OF REAL ESTATE LOANS REVIEWED BY DIFFERENT INCOME LEVELS IN THE ASSESSMENT AREA

Median Family Income*			$69,900
INCOME LEVEL OF BORROWER	**Percentage of Consumer Loans**		**Percentage of Families in Assessment Area****
	#	$	
Low (Less than 50 percent of Median-Family Income)	21	15	29
Moderate (50 to 80 percent of Median-Family Income)	29	20	21
Middle (80 to 120 percent of Median-Family Income)	14	17	21
Upper (Greater than 120 percent of Median-Family Income)	36	48	29

* Median Family Income is based on the 2002 HUD estimated median family income for the Denver MSA.

** The percentage of families in the assessment area is based on 1990 census data.

Commercial Loans

Table 6 shows that 65 percent of the loans sampled were to businesses with gross annual revenues of less than $250,000 and 73 percent of the total loans were to businesses with gross annual revenues of less than $1,000,000. According to Dun and Bradstreet's 2001 data, 84 percent of the businesses in the bank's assessment area have gross annual revenues of less than $1,000,000. Although the bank's penetration is below the demographics of the area, this penetration is considered reasonable. The bank's strategy focuses on developing relationships with customers. Due to the bank's proximity to a number of area hospitals, a significant number of bank customers work in the medical field. Bank lenders establish loan relationships with these individuals while they are starting and building their medical practices. As these practices grow, many customers continue their banking and lending relationships with Mountain States Bank. As a result, the bank's portfolio has a higher concentration of loans to health care related businesses. These businesses, once established, commonly generate revenues in excess of $1,000,000 and account for the higher percentage of lending to large businesses as compared to demographics. The bank demonstrates a willingness to lend in small dollar amounts, however, as 65 percent of loans sampled were originated in loan amounts less than or equal to $100,000.

Table 6
LENDING TO BUSINESSES OF DIFFERENT SIZES WITHIN THE ASSESSMENT AREA

Gross Annual Revenue	Number of Business Loans	%	Total Amount of Loans $(000)	%
Less than $100,000	7	27	738	21
$100,000 to $250,000	10	38	1,390	39
$250,001 to $500,000	1	4	30	1
$500,001 to $1,000,000	1	4	80	2
Greater than $1,000,000	7	27	1,298	37
TOTALS	**26**	**100**	**3,536**	**100**

Record of Responding to Complaints

The bank has not received any complaints about its performance in meeting assessment area credit needs. Therefore, the bank's performance in responding to complaints was not assessed.

Other Considerations

Although the bank did not request consideration of the level of its investments and services, some community development loans were revealed in discussions with community contacts. Therefore, bank management was requested to provide a list of its community development activities. The information provided revealed a high level of community development lending by the bank. Since January 2000, the bank originated

$10,539,600 in community development loans, most of which were targeted for affordable housing for low- and moderate-income individuals. Although this performance is not assigned a separate rating, these loan originations support the bank's overall satisfactory rating.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

There were no violations of any antidiscrimination laws and regulations identified during the fair lending component of the compliance examination. Overall, adequate policies, procedures, and training programs have been developed to ensure equal treatment in the bank's lending activities.

GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

Assessment Area – The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Census Tracts – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

Community Development – Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of $1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

Community Development Loan – A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank).

1. Has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan and
2. Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Consumer Loans – Loans to individuals for household, family and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

Geography – A census tract or a block numbering area.

Income Level – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In nonMSA areas, the level is based on the statewide, nonMSA median income.

Low-Income – Less than 50 percent of the area median income

Moderate-Income – At least 50 percent and less than 80 percent of the area median income

Middle-Income – At least 80 percent and less than 120 percent of the area median income

Upper-Income – At least 120 percent or more of the area median income

Metropolitan Statistical Area (MSA) - The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

Small Business – A business with gross annual revenues of $1 million or less.

Small Business Loan – A loan with an original amount of $1 million or less that has been reported in the Consolidated Report of Condition and Income in the category "Loans secured by nonfarm nonresidential properties" or "Commercial and industrial loans."