

PUBLIC DISCLOSURE

JUNE 30, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

TRI-STATE BANK
33558
10-08-0499

616 E. SPEER BOULEVARD
DENVER, COLORADO 80203

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 Tri-State Bank, Denver, Colorado prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of June 30, 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**.*

Tri-State Bank is meeting the credit needs of its community in a reasonable manner based on an analysis of the bank's performance in five core criteria. The bank lends to individuals of all income levels, including low- and moderate-income applicants, and to businesses of different sizes including small businesses. Bank loans are also made in census tracts of varying income characteristics. Also, the bank does the majority of its lending within its assessment area. Finally, the bank's loan-to-deposit ratio is appropriate and reflects a willingness to lend to its community. The response to complaints criteria was not evaluated as the bank has not received complaints regarding its CRA performance.

The bank's performance under the CRA was last evaluated at the July 24, 1995 examination, at which time it was considered Outstanding.

DESCRIPTION OF INSTITUTION

Tri-State Bank is located in Denver, Colorado, just southeast of downtown. The bank also has a full-service branch located in Boulder and operates four automated teller machines (ATMs). Drive-up facilities are available in both Denver and Boulder. The bank reported assets of \$114,923,000 in its March 31, 1997 Report of Condition and Income (Call Report).

The bank offers a variety of loan and deposit products to meet the banking needs of its

defined assessment area, although its niche is small business lending. The distribution of the bank's loans, according to the March 31, 1997 Call Report, is shown in Table 1.

Table 1		
DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO AS OF March 31, 1997		
Type of Loan	Amount (In Thousands)	Percentage of Total Loans
Loans Secured by Real Estate:		
Secured by nonfarm, nonresidential properties	26,909	38
Loans secured by 1- to 4-family residential properties	14,701	21
Construction and land development	8,050	12
Secured by multifamily (5 or more) residential properties	2,387	3
Secured by farmland	836	1
Commercial Loans	\$15,280	22
Consumer Loans	2,288	3
Other	38	-
Total	\$70,489	100

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Tri-State Bank has designated a large part of the Denver MSA and all of the Boulder MSA as its assessment area. An assessment area is the geographic area that bank management has designated as the bank's primary service area for CRA purposes. This assessment area includes portions of Adams, Arapahoe, Denver, Jefferson, and Boulder Counties. This area is made up of 455 census tracts. A map of the assessment area is included with this report. A relatively proportionate number of tracts are designated as low-, moderate-, middle-, and upper-income. Both the bank and the branch are located in middle-income census tracts.

The population in the assessment area as of the 1990 census was over 1.5 million, compared to total population in the Denver and Boulder Metropolitan Statistical Areas (MSAs) of well over 1.8 million. Employment in the area has been strong, with an unemployment rate of only 5.3 percent, compared to the state rate of 5.6 percent. Employment has steadily grown, with a total percentage change over the past five years of over 15 percent. Service industries represent the highest portion of employment in

the assessment area, followed by retail and wholesale trade. 1990 median housing values in the assessment area (\$88,900) were slightly higher in the assessment area than in the state (\$82,397). Values in the Boulder MSA were significantly higher (\$102,276). Housing values have increased substantially since that time.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The five core criteria for assessing small bank performance are discussed in detail in the following sections of this report. To analyze the bank's performance, a sample of four major product types was selected using statistical procedures. Specifically, 39 consumer real estate loans, 45 other secured consumer loans, 52 small business loans, and 51 small business loans secured by real estate were reviewed.

Additionally, a discussion of the bank's qualified investments and services is provided for informational purposes only. These additional criteria did not influence the bank's overall CRA rating as the bank's rating in the core criteria was clearly satisfactory.

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

This criteria evaluates the bank's loan originations among borrowers of different incomes, including low- and moderate-income borrowers and small businesses. The analysis showed a reasonable penetration among borrowers of different income levels. Table 2 shows consumer loans to borrowers of varying income-levels compared to demographic data such as median family incomes within the MSAs. Tables 3 and 4 show the distribution of the business loans sampled.

Table 2 shows that a significant portion of the bank's total consumer lending is provided to middle- and upper-income borrowers. This appears reasonable, however, given that the bank's niche is small business lending. Additionally, competition in the consumer lending arena in the assessment area is intense, particularly in consumer real estate products.

The level of real estate lending to low- and moderate-income borrowers also appears low. However, the bank's performance is reasonable given the fact that the bank offers few first purchase real estate loans or refinancings. As such, the real estate loans are made to those borrowers that apply and qualify for real estate loans above a standard first mortgage. These loans, which are mainly home equity loans, tend to be more upscale products, with less demand by lower-income borrowers. To ensure that first purchase and refinancing needs of its customers are met, the bank refers these requests to parties that provide these types of financing.

It should also be noted that 7 percent of the families in the assessment area live below the poverty level. Therefore, although 20 percent of the population is considered to be low-income, only 14 percent would be reasonably able to obtain credit under safe and sound banking principles. Adjusted demographic percentages are more in line with the overall lending results.

Table 2									
DISTRIBUTION OF CONSUMER LOANS SAMPLED IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER									
	Real Estate Loans				Other Secured Loans				Demo- graphic s
	Nu mb er	%	Dollar	%	Nu mb er	%	Dollar	%	% of Assesse ment Area Populatio n
Low-Income ¹	13	7	\$1,166,826	8	5	13	\$92,372	12	20
Moderate-Income ²	22	13	\$594,077	4	12	31	\$82,577	10	19
Subtotal	35	20	\$1,760,903	12	17	44	\$174,949	21	39
Middle-Income ³	19	11	\$608,800	4	4	10	\$49,000	6	24
Upper-Income ⁴	120	69	\$12,817,016	84	18	46	\$582,216	72	37

¹ Less than 50 percent of the Denver/Boulder MSA median family income

² 50 to 79.99 percent of the Denver/Boulder MSA median family income

³ 80 to 119.99 percent of the Denver/Boulder MSA median family income

⁴ 120 percent or more of the Denver/Boulder MSA median family income

The bank is also reasonably meeting the needs of businesses within the assessment area, particularly small business borrowers. Tables 3 and 4 show the distribution, by annual revenue figures, for business loans secured by residential real estate and other business loans. As noted in those tables, 81 percent of the number of residence-secured business loans and 78 percent of the number of other business loans were to businesses with gross annual revenues less than \$1 million, which are by definition small businesses.

Table 3				
DISTRIBUTION BY INCOME LEVEL OF RESIDENTIAL REAL ESTATE-SECURED BUSINESS LOANS ¹ SAMPLED WITHIN THE ASSESSMENT AREA				
Gross Annual Revenue	Number of Loans	%	Dollar Amount of Loans	%
Less than \$100,000	16	31	1,166,690	19
Greater than or equal to \$100,000 but less than \$250,000	17	33	1,668,990	26
Greater than or equal to \$250,000 but less than \$500,000	7	13	1,027,110	16
Greater than or equal to \$500,000 but less than \$750,000	1	2	40,000	1
Greater than or equal to \$750,000 but less than \$1 million	1	2	249,500	4
Subtotal	42	81	4,152,290	66
Greater than or equal to \$1 million	10	19	2,136,000	34
Loans without income information	0	0	0	0
Total	52	100	6,288,290	100

¹ Commercial construction and land development loans, commercial loans secured by 1-4 family residential properties, commercial loans secured by multifamily residential properties.

Table 4				
DISTRIBUTION BY INCOME LEVEL OF OTHER BUSINESS LOANS ¹ SAMPLED WITHIN THE ASSESSMENT AREA				
Gross Annual Revenue	Number of Loans	%	Dollar Amount of Loans	%
Less than \$100,000	6	12	192,300	4
Greater than or equal to \$100,000 but less than \$250,000	11	23	1,075,650	22

Table 4				
DISTRIBUTION BY INCOME LEVEL OF OTHER BUSINESS LOANS ¹ SAMPLED WITHIN THE ASSESSMENT AREA				
Greater than or equal to \$250,000 but less than \$500,000	11	2 3	674,484	14
Greater than or equal to \$500,000 but less than \$750,000	2	4	45,000	1
Greater than or equal to \$750,000 but less than \$1 million	8	1 6	1,247,313	25
<i>Subtotal</i>	39	7 8	3,364,747	66
Greater than or equal to \$1 million	8	1 6	849,563	17
Loans without income information	3	6	815,000	17
Total	49	1 0 0	4,899,310	100

¹ Commercial and industrial loans and loans secured by nonfarm, nonresidential properties

Geographic Distribution of Loans

This performance criteria measures the bank's penetration into census tracts within its community that have different income characteristics, including those that are designated as low- and moderate-income tracts. As mentioned previously, the bank's assessment area has 455 census tracts, which are distributed fairly evenly among low-, moderate-, middle-, and upper-income census tracts. However, the population within these tracts is greater in the middle- and upper-income tracts. Table 5 shows the distribution of loans throughout census tracts of different income levels and provides demographic data for comparison.

To analyze the results, performance in all the consumer loans was compared against the population and number of families within the tract categories, since there would be little demand for consumer loans in tracts with low population. However, business loans were reviewed against the actual number of census tracts in the assessment area.

Results show a similarity between general lending patterns for all products and demographic data. These results appear reasonable given the bank's location, size, and operating focus. An anomaly was noted in the number and amount of real estate-secured consumer loans made in moderate-income tracts. This is somewhat attributable to the fact that most of these loans, as mentioned previously, are not first purchase or refinancing loans. Additionally, since nearly 40 percent of the housing units in the low- and moderate-income areas are not owner-occupied, compared to nearly 64 percent in middle- and upper-income geographies, it is reasonable that the bank would have higher penetration into the middle and upper-income census tracts for this product.

Table 5

**DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA
BY INCOME LEVEL OF CENSUS TRACTS**

	Low-Income ¹		Moderate-Income ²		Middle-Income ³		Upper-Income ⁴	
	#	\$	#	\$	#	\$	#	\$
Real Estate Secured Consumer Loans	2	352,000	3	59,954	17	1,251,000	12	1,565,500
<i>Percent of Total</i>	6	11	9	2	50	39	35	48
Other Secured Consumer Loans	4	29,540	8	185,984	15	128,039	12	462,602
<i>Percent of Total</i>	10	4	21	23	38	16	31	57
Real Estate-Secured Business Loans	4	569,500	13	1,425,435	13	1,107,265	22	3,186,090
<i>Percent of Total</i>	8	9	25	23	25	17	42	51
Non-real Estate-Secured Business Loans	10	1,098,500	10	2,185,950	17	1,066,522	12	548,338
<i>Percent of Total</i>	20	22	20	45	35	22	25	11
Number of Census Tracts in Assessment Area	105		102		145		103	
<i>Percent of Total Census Tracts in Assessment Area</i>	23		22		32		23	
Population in Census Tracts	109,469		376,850		629,993		392,957	
<i>Percent of Population</i>	7		25		42		26	
Families in Census Tracts	143,673		104,927		125,435		240,592	
<i>Percent of Families</i>	23		17		21		39	

1

Census Tracts having less than 50 percent of the Denver/Boulder MSA median family income

2

Census Tracts having at least 50 percent and less than 80 percent of the Denver/Boulder MSA median family income

3

Census Tracts having at least 80 percent and less than 120 percent of the Denver/Boulder MSA median family income

⁴ Census Tracts having 120 percent or more of the Denver/Boulder MSA median family income

The number and amount of real estate-secured business loans in low-income tracts also appears to be somewhat low. While no apparent explanation of this fact was found, the general findings regarding the bank's record of lending in low- and moderate-income areas give no cause for concern.

Lending Within the Assessment Area

This criteria is designed to gauge the bank’s performance in meeting the credit needs of its immediate community, as compared to credit needs in a wider geographic area. The bank has a majority of loans in its assessment area. As noted previously, the bank has defined a broad area containing much of the Denver MSA and all of the Boulder MSA as its assessment area. Its record of lending within the community is only reasonable relative to its large assessment area. Table 6 provides a summary of all loans sampled.

Table 6				
DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA				
	Inside the Assessment Area			
	Number of Loans	%	\$ Amount of Loans	%
Real Estate-Secured Consumer Loans	34	79	3,228,454	83
Other Secured Consumer Loans	39	89	806,165	93
Real Estate-Secured Business Loans	52	87	6,288,290	78
Non-Real Estate-Secured Business Loans	49	86	4,899,310	87

Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio is evaluated to determine if the bank is committed to providing loans based on the deposits it has received from customers. The bank’s average net loan-to-deposit ratio, based on the four quarters ended March 31, 1997, was 65.88 percent. Comparisons were made with similar-sized banks in the Denver-Boulder metropolitan area, with similar-sized banks located in the city of Denver, and with all banks located in the city of Denver. Average ratios for these comparables were similar, at 61.71 percent, 64.75 percent, and 65.49 percent, respectively. This indicates that the bank is reasonably reinvesting the deposits it receives in its community in the form of loans.

Response to Complaints

The bank has received no complaints about its performance in meeting assessment

area credit needs. Therefore, no assessment of the bank's performance in this criterion was made.

Compliance with Antidiscrimination Laws and Regulations

During the compliance portion of the examination, no significant substantive violations of the antidiscrimination laws and regulations were noted. In general, the bank has adequate policies, procedures, and training in place to ensure nondiscrimination in lending activities.

Qualified Investments and Services

Although these ancillary criteria did not enhance the bank's overall Satisfactory rating under the CRA, the bank is significantly contributing to its community in a variety of ways. The following is a summary of the most notable contributions.

Qualified Investments

The bank has contributed to the Boulder YMCA "Partner in Youth" campaign, which enables the YMCA to serve low- and moderate-income children in child care and other activities.

Retail Services

The bank has enhanced its services to allow greater access for the community in a variety of ways. For example, since the previous examination, the bank implemented a 24-hour telephone banking system which provides account information and allows transfers of funds. Approximately 4,000 inquiries are received each month. The bank has also added bilingual access at its ATM machines for Spanish-speaking customers and changed its Saturday drive-thru hours in response to community requests. The bank also provides payroll check and government check cashing for noncustomers of the bank for no fee.

Community Development Services

The bank provides escrow services for the Disabled Veterans of America in its efforts to provide home improvements for low- and moderate-income veterans free of any charges. Directors and officers of the bank serve on numerous boards and committees, providing financial guidance and expertise, to a wide variety of organizations that target low- and moderate-income housing and other community development needs. These include the Five Points Business Association, the Denver Advisory Board of the Salvation Army, the Aphasia Foundation, For a Child's Sake, and Boulder's Affordable Housing Task Force. In addition, one director volunteers as an instructor for the Emily Griffith School's small business classes, which includes instruction on loan products and training on how to apply for credit. The bank also provides financial services to community development groups, such as providing office space and expertise in

counting and recording Salvation Army Christmas donations and processing the Salvation Army mail campaign donations.