



PUBLIC DISCLOSURE

February 21, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**COLORADO MOUNTAIN BANK
RSSD# 353359**

**1000 MAIN AVENUE
WESTCLIFFE, COLORADO 81252**

**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".*

Colorado Mountain Bank (CMB) has a satisfactory record of helping to meet the credit needs of its entire assessment area (AA), including low- and moderate-income neighborhoods, in a manner consistent with its resources, operating philosophy, and the credit needs of the community. Four of the five criteria used in evaluating small bank lending performance were relevant to this review and are as follows:

- Loan-to-Deposit (LTD) Ratio
- Lending Inside the AA
- Geographic Distribution of Loans
- Lending to Businesses of Different Revenue Sizes and Borrowers of Different Income Levels

The bank's responsiveness to complaints under the Community Reinvestment Act (CRA), the fifth core criteria used to assess small bank performance, was not evaluated because the bank has not received any such complaints.

Conclusions about the four performance criteria were based on data compiled from a statistically-derived sample of loan files for each major product line. The major product lines were determined through discussions with bank management, a review of the Report of Condition and Income (Call Report), and a review of the number of loan originations since the last CRA examination. The two loan types selected for review were small business and consumer residential real estate-secured loans classified as 1- to 4-family properties.

CMB's LTD ratio reflects a more than reasonable effort to extend credit consistent with safe and sound banking practices. In addition, a majority of the bank's lending activity occurred inside its AA. The geographic distribution of loans was not reviewed for the Westcliffe AA, as it is comprised of only one middle-income census tract. However, the bank's geographic distribution of loans reflected a reasonable dispersion throughout the Fountain AA. Finally, the bank's distribution of loans among businesses of different revenue sizes and individuals of different income levels was reasonable.

SCOPE OF EXAMINATION

The loan samples of commercial and residential real estate loans used in the analysis were comprised of loans originated from January 1, 2004, through December 31, 2005. The resulting sample totaled 140 loans, including 92 business loans and 48 consumer loans secured by 1- to 4-family residences.

DESCRIPTION OF INSTITUTION

CMB is headquartered in Westcliffe, Colorado, a rural mountainous community in Custer County, located approximately three hours southwest of Denver. The bank operates one branch office in the city of Fountain, Colorado. The branch is located approximately two hours northeast of the Westcliffe office in El Paso County. The Westcliffe and Fountain offices are both located in middle-income census tracts. The bank owns and operates two deposit-taking automated teller machines (ATM's), one at each location.

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. There are no legal impediments that currently impact the bank's ability to lend. The bank's lending activity is primarily devoted to commercial financing and residential mortgage loans. According to the December 31, 2005 Call Report, the bank's total assets were \$73,997,000, including loans totaling \$62,576,000 and deposits totaling \$67,199,000. Table 1 illustrates the breakdown of the bank's loan portfolio by product.

TABLE 1 DISTRIBUTION OF LOANS IN CMB's LOAN PORTFOLIO AS OF DECEMBER 31, 2005				
Type of Loan			Amount \$(000s)	Percent
Loans Secured by Real Estate:			49,972	80
	Amount \$(000s)	Percent		
Loans secured by 1- to 4-family residential properties	23,713	48		
Construction and land development loans	3,759	6		
Loans secured by farmland	794	2		
Loans secured by nonfarm, nonresidential properties	21,706	44		
Consumer Loans			2,897	5
Commercial Loans			9,304	15
Agricultural Loans			9	<1
Other Loans			117	<1
TOTAL			62,576	100

The bank's performance under the CRA was last evaluated at the February 11, 2002, examination, at which time it was assigned a satisfactory rating.

DESCRIPTION OF THE COLORADO MOUNTAIN BANK'S ASSESSMENT AREA

Due to the geographic distance between the bank's two offices, Westcliffe's location in a nonmetropolitan area, and Fountain's location in a metropolitan area, the bank has designated two separate AA's. The first designated AA, the Westcliffe AA, consists of Custer County which is comprised of one middle-income census tract. The second AA, the Fountain AA, includes four census tracts, including one moderate-income and three middle-income tracts in El Paso County, which is part of the Colorado Springs metropolitan statistical area (MSA). The individual AA's are discussed either separately or on a consolidated basis throughout this performance evaluation.

Members of the community were interviewed during this review to obtain information on local economic conditions and potential credit needs. These contacts provided perspectives as representatives from the chamber of commerce and the city economic development office. Information obtained from these contacts will be discussed under the appropriate AA descriptions detailed later in this report.

Table 2 on the next page summarizes income-related demographic and economic characteristics of the bank's AA's based on 2000 Census and 2004 Dun and Bradstreet data.

TABLE 2 CHARACTERISTICS COLORADO MOUNTAIN BANK'S ASSESSMENT AREA			
	WESTCLIFFE AA	FOUNTAIN AA	COMBINED AA
Population			
Population Totals	3,503	21,414	24,917
Census Tract Summary			
Number of Low-Income Tracts	0	0	0
Number of Moderate-Income Tracts	0	1	1
Number of Middle-Income Tracts	1	3	4
Number of Upper-Income Tracts	0	0	0
Tracts With Unknown Income	0	0	0
Total Number of Census Tracts	1	4	5
Percent of Families by Tract Income			
Low-Income Tracts	0	0	0
Moderate-Income Tracts	0	25	20
Middle-Income Tracts	100	75	80
Upper-Income Tracts	0	0	0
Total Number of Families	1,086	5,816	6,902
Income Summary			
Percent Low-Income Families	20	21	20
Percent Moderate-Income Families	23	22	23
Percent Middle-Income Families	31	21	29
Percent Upper-Income Families	26	36	28
Median Family Income	\$44,481	\$47,066	\$45,773
Housing Information			
Percentage Owner-Occupied Units	40	72	63
Percentage Rental Units	10	24	20
Percentage Vacant Units	50	4	17
Total Housing Units	6,504	2,105	1,764
Business Information			
Percent of Businesses with \$1 Million or less in Revenue	92	91	92
Percent of Businesses with over \$1 Million in Revenue	4	5	4
Percent of Businesses with Revenue not Reported	4	4	4

The Westcliffe Assessment Area

The Westcliffe AA encompasses all of Custer County, includes the towns of Westcliffe, Silver Cliff, Rosita, and Wetmore, and is comprised of one middle-income census tract. The Westcliffe AA is partially surrounded by the San Isabel National forest and the Sagre de Cristo and Wetmore mountain ranges. The highest concentrations of population and employment in this area are in the towns of Westcliffe and Silver Cliff . Custer County's main industries are cattle ranching, growing and selling hay, and tourism. The area's largest employer is the

county government, followed by the local hospital and Valley Ace Hardware. There are three financial institutions that operate in the AA. According to the Federal Deposit Insurance Corporation (FDIC) deposit market share data, CMB ranks first with 82 percent of the deposit market share.

A representative of the Westcliffe Chamber of Commerce was contacted during the evaluation to provide information on local economic conditions. The contact stated that the economy is currently improving. The AA experienced a decline in tourism following September 11th and recent fires in the surrounding wild lands. However, local businesses, which rely heavily on seasonal tourism, experienced improved trade in 2005. There has also been an increase in local support for economic development that has helped to stabilize the economy. Nonetheless, similar to many rural areas, the out-migration of younger residents continues to affect the local economy.

The Fountain Assessment Area

The Fountain AA consists of four census tracts, including one moderate-income and three middle-income tracts. The designated census tracts are located in El Paso County, which is part of the Colorado Springs MSA. This AA includes the city of Fountain and the town of Widefield. The city of Fountain is located 10 miles south of Colorado Springs and 30 miles north of Pueblo, along Interstate 25 and Colorado's Rocky Mountain Front Range. The AA's main industries are retail trade and services, and housing construction. The largest employers in Fountain are Sanmina SCI (computer hardware manufacturer), RBM (rotational plastics molding manufacturer), Adesa (auto wholesale), and Peyton's Fountain (Kroger Grocery Stores' wholesale distributor). There are three financial institutions that operate in the AA; however, there are forty financial institutions in El Paso County. CMB ranks twentieth in the county with 1.45 percent of the deposit market share, according to FDIC deposit market share data.

A representative from the city of Fountain economic development office was interviewed regarding the local economy. According to the contact, the city of Fountain is one of the fastest growing communities in El Paso County. Fountain's population grew approximately seven percent in 2005, following several years of population growth at approximately five percent per year. Fountain's growth is due primarily to the expansion of Fort Carson Army Base, which is in close proximity, and to more affordable housing than in nearby Colorado Springs. The base is projected to grow by an additional 12,000 troops in the next five years. To accommodate the troops and their families, there will be an estimated 700 homes built in Fountain in 2006. In addition, to meet the needs of the Fort Carson military, the city of Fountain is in the process of improving its infrastructure, schools, and retail services.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

This performance standard evaluates the reasonableness of the bank's aggregate LTD ratio in light of performance context information, including the institution's capacity to lend, demographic and economic factors present in the AA, and the availability of lending opportunities. The bank's net LTD ratio over the past 12 quarters averaged 87 percent. This average LTD ratio was compared with that of five other financial institutions of similar asset sizes and operations within the same AA. During the same time period, these five banks had an average LTD ratio of 65 percent. Nationwide peer group bank's (assets between \$50 million and \$100 million, with two full-service offices) average LTD ratio was 70 percent for the same period. CMB's LTD ratio is significantly higher than that of both the local and national peer group banks, which demonstrates a high level of willingness to originate loans. Therefore, the bank's performance under this test is considered outstanding.

Lending in the Bank's Assessment Areas

This lending test evaluates the concentration of loans originated by the bank in its combined AA. Table 3 shows that, collectively, the majority of small business and residential real estate loan originations were in the bank's combined AA, while loans by dollar amount were slightly below 50 percent. However, the majority of small business loans by both number and dollar amount at 62 percent and 65 percent, respectively, were generated in the assessment area. The majority of residential real estate loans at 69 percent, by number, was also generated in the assessment area. Although the residential real estate loans, by dollar amount, generated within the assessment area was below 50 percent, the percentage appears reasonable based on median housing prices. According to 2000 census data, Westcliffe and Fountain's median housing values were approximately 40 percent and 28 percent, respectively, below that of the state of Colorado. Fountain's median housing value was also 21 percent below that of Colorado Springs. Therefore, the bank's performance under this test is considered satisfactory.

**TABLE 3
DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA**

	Inside the Assessment Area				Outside the Assessment Area			
	Number of Loans	%	Dollar Amount of Loans (000s)	%	Number of Loans	%	Dollar Amount of Loans (000s)	%
Small Business	57	62	6,540	65	35	38	3,607	35
Residential Real Estate	33	69	3,464	34	15	31	6,760	66
TOTAL	90	64	10,004	49	50	36	10,367	51

Geographic Distribution

This performance test evaluates the bank's distribution of loans among census tracts of various income levels. The bank's business loans are compared to the percentage of small businesses located in each income level of census tracts. Similarly, the bank's distribution of residential real estate loans is compared to the percentage of families located in the geographies of various income levels.

The Westcliffe Assessment Area

The Westcliffe AA contains one middle-income tract. As a result, this AA was not evaluated under this test.

The Fountain Assessment Area

This AA does not contain any low-income census tracts; however, there is one moderate-income census tract. The bank's level of small business lending in the moderate-income census tract is considerably higher at 44 percent than the percentage of small businesses at 20 percent located in this tract.

The bank originated 39 percent of its residential real estate loans in the moderate-income tract, which is also higher than the 25 percent of families designated as moderate-income. The bank's origination of small business and real estate loans in the moderate-income tract is considered satisfactory. Refer to Table 4 on the next page for specific distribution levels.

**TABLE 4
GEOGRAPHIC DISTRIBUTION OF LOANS IN FOUNTAIN ASSESSMENT AREA**

	% Bank Loans				% of Small Businesses			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Small Business	N/A	44	56	N/A	N/A	20	80	N/A
	% Bank Loans				% Tract Distribution			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Residential Real Estate	N/A	39	61	N/A	N/A	25	75	N/A

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

This lending test focuses on the bank’s level of lending to businesses with gross annual revenues of \$1,000,000 or less and considers the bank’s lending distribution to borrowers of different income levels, with an emphasis on lending to low- and moderate-income borrowers of different income levels.

The Westcliffe Assessment Area

As shown in Table 5, the bank’s level of lending to both small businesses and borrowers of different income levels approximates the levels shown in the demographic data. The bank originated 92 percent of its loans to small businesses which corresponds to the percentage of small business in the AA at 91 percent. The bank’s willingness to make loans in small amounts to very small businesses was also demonstrated during the evaluation. Of the bank’s small business loan originations, 14 percent were for amounts of \$100,000 or less and 55 percent were to businesses with annual revenues of \$250,000 or less.

Forty-seven percent of the bank’s residential real estate loan originations were made to borrowers in the low- and moderate-income levels. The percentage of originations compares favorably to the 43 percent of families at the low- and moderate-income levels. Therefore, the bank’s performance for this AA is considered satisfactory.

The Fountain Assessment Area

As demonstrated in Table 5, the bank’s level of small business lending compares favorably to the percentage of businesses located in the AA. All of the bank’s loans originated in this AA were to small businesses. The bank also continues to service the smaller businesses in its AA. Of the small business loan originations, 89 percent were to businesses with less than \$100,000 in annual revenues and 33 percent of the originations were for loan amounts of \$100,000 or less.

Forty-seven percent of the residential real estate loans to borrowers of low- and moderate-income compared favorably to the 43 percent of families at low- and moderate-income levels.

In addition, 70 percent of the real estate loans were in amounts of \$250,000 or less. The bank's performance for this AA is also considered satisfactory. Therefore, CMB's overall rating for lending to businesses of different revenue sizes and borrowers of different income levels is satisfactory.

**TABLE 5
BORROWER DISTRIBUTION OF LOANS**

TABLE 5 BORROWER DISTRIBUTION OF LOANS								
Westcliffe AA	% Bank Loans by Number				% of Small Businesses			
Small Businesses with Gross Revenues Less than One Million	92				91			
	% Bank Loans by Number				% of Families			
Income Level of Borrower Residential Real Estate Loans	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
	27	20	24	29	21	22	21	36
Fountain AA	% Bank Loans by Number				% of Small Businesses			
Small Businesses with Gross Revenues Less than One Million	97				92			
	% Bank Loans by Number				% of Families			
Income Level of Borrower Residential Real Estate Loans	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
	8	39	38	15	20	23	31	26

Record of Responding to Complaints

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

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

An evaluation of the bank's lending activities was conducted during the examination to determine compliance with the Equal Credit Opportunity and Fair Housing Acts. The Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures were used for the analysis. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified. Generally, satisfactory policies, procedures, and training programs have been developed to support nondiscrimination in lending activities. Furthermore, the bank is not engaged in other illegal practices that are inconsistent with helping to meet the community's credit needs.

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 AA must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The AA 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 AA(s) or a broader statewide or regional area that includes the bank’s AA(s).

Community Development Service – A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank’s retail banking services, benefits the bank’s AA(s) or a broader statewide or regional area that includes the bank’s AA and has not been claimed by other affiliated institutions.

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

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.

Qualified Investment – A lawful investment, deposit, membership share or grant that has as its primary purpose community development.

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.”

Small Farm – A farm with gross annual revenues of \$1 million or less.

Small Farm Loan – A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers.”