



PUBLIC DISCLOSURE

May 5, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**THE BANK OF DURANGO
RSSD#69351**

**P.O. BOX DRAWER G, 125 SAWYER STREET
DURANGO, COLORADO 81302**

**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, two loan types were sampled for this evaluation. The loans sampled included those designated as small business loans and consumer loans secured by motor vehicles.

The Bank of Durango's loan-to-deposit ratio reflects a reasonable effort to extend credit given the bank's size, financial capacity, and assessment area needs. 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 the CRA.

The bank's CRA performance was last evaluated by the Federal Reserve Bank of Kansas City on April 12, 1999, at which time a Satisfactory rating was assigned.

DESCRIPTION OF INSTITUTION

The Bank of Durango, with total assets of \$30,875,000 is a full-service financial institution operating from premises located at 125 Sawyer Drive in Durango, Colorado.

Drive-up banking access and a 24-hour automated teller machine are provided at the bank facility. The bank offers a variety of deposit and loan products, but is primarily a commercial lender. Commercial loans comprised 84 percent of the bank's loan portfolio as of December 31, 2002. Table 1 illustrates the breakdown of the bank's loan portfolio by product.

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. The Bank of Durango is subject to strong competition from other financial institutions within its assessment area: two large national institutions, one regional institution, and six local banks. Despite intense competition, The Bank of Durango has experienced growth in both loans and deposits. Based on Call Report information, total assets increased 30 percent from December 31, 2001 to December 31, 2002. The bank's balance sheet reflects net loans of \$24,374,000 and deposits of \$28,637,000 as of December 31, 2002. Since the previous performance evaluation, the bank's loan portfolio has grown by 38 percent and its deposits have grown by 56 percent. There are no legal impediments that impact the bank's ability to lend.

TABLE 1 DISTRIBUTION OF LOANS IN THE BANK OF DURANGO'S LOAN PORTFOLIO AS OF DECEMBER 31, 2002		
Type of Loan	Amount (\$000s)	Percent
Secured by Real Estate	1,673	7
Consumer	1,819	8
Commercial	19,932	84
Agricultural	136	< 1
Other	219	< 1
TOTAL	23,779	100

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The Bank of Durango is located in Durango, Colorado. Durango is located in southwest Colorado, in an area known as the "Four Corners" region, where the state borders of Colorado, New Mexico, Arizona, and Utah meet. Durango is the county seat of La Plata County. Located at the foot of the San Juan Mountain range, in the Las Animas River valley, Durango offers a variety of year-round attractions and is a tourist destination.

The bank defines its assessment area as all of La Plata County. Thirty-eight percent of the territory is made up of federal lands in the San Juan National Forest. The Animas River divides La Plata County north to south. The Southern Ute Indian Reservation comprises the southern third of the county. The bank's assessment area is comprised of one

moderate-income block numbering area (BNA), six middle-income BNAs, and one upper-income BNA. The moderate-income area, in the southwestern portion of Durango, is where the bank's facility is located. According to 1990 census data, this area houses 3,200 residents, or approximately 10 percent of the county's population. Community contacts stated that the area's industrial development over the preceding ten years has eliminated most residential housing from the area. A tour of this area, which includes the downtown retail district, affirmed the contacts' statements; very few housing units remain in this geography. Preliminary 2000 census data also supports the community contacts' statements. There appear to be limited opportunities for consumer lending in the moderate-income geography due to the lower number of inhabitants within this geography.

The La Plata County population as of the 1990 census was 32,284 residents, of whom 24,813 are age 16 or older. Of the 11,963 households in the assessment area, 2,576 or 22 percent are deemed low-income and 1,897 or 16 percent are deemed moderate-income households.¹ 1990 census data indicates that 1,832 households or 15 percent have incomes below the poverty level. Thirty-seven percent of renters pay more than 30 percent of their income for rent.

The six middle-income geographies are home to 76 percent of the assessment area population. Middle-income BNAs include the towns of Bayfield, Hermosa, and Ignacio, as well as the Durango Mountain Ski Resort, the Southern Ute Indian Reservation, and part of the San Juan National Forest. The upper-income BNA, in the northern part of the city of Durango, is home to Fort Lewis College, a four-year fully accredited liberal arts school. Fourteen percent of the assessment area population resides in the upper-income area including the Fort Lewis student population, which represents four percent of the area total.

Table 2 reflects the demographic characteristics of the bank's assessment area.

¹ Source: 1990 U.S. Census Bureau data

TABLE 2 CHARACTERISTICS OF BANK'S ASSESSMENT AREA (Based on 1990 Census Data)	
Total number of block numbering areas (BNAs)	8
	Number of BNAs
Low-Income	0
Moderate-Income	1
Middle-Income	6
Upper-Income	1
Total Population	32,284
Median Family Income*	\$46,000
Percent of Low-Income Families	18
Percent of Moderate-Income Families	16
Percent of Middle-Income Families	22
Percent of Upper-Income Families	44
Total Businesses**	3,367
Total Farms**	159
Percent of Businesses < \$1,000,000 in Total Revenue	89
Percent of Farms < \$1,000,000 in Total Revenue	92

* Based on the 2002 U.S. Department of Housing and Urban Development (HUD) figure for the nonmetropolitan areas of Colorado

** Based on 2001 Dun & Bradstreet data

Durango's economy reflects characteristics typical of a tourism-based economy, with most jobs in the services and retail trade categories. The services sector provides 35 percent of the employment opportunities for local residents, with the wholesale and retail trade sector providing 23 percent of local jobs.² From 1990 to 1997, the number of jobs in La Plata County grew by 21,812, with the service sector generating 39 percent of new jobs. The largest component of the service sector is health services, which provides 43 percent of service sector income.³ Major employers in the area are the Southern Ute Indian Tribe, which operates a casino; Mercy Medical Center, a regional hospital and health care center; Fort Lewis College, an accredited college; the 9-R School District, public schools; the Wal-Mart retail store; and various departments of the United States Government. Of the 1,724 employers in the area,⁴ 97.5 percent employ 49 or fewer employees, 2 percent employ between 50 and 500 employees, and less than 1 percent employ greater than 500 employees. Unemployment in the county, at 3.1 percent, parallels state unemployment figures for the same reporting period.

² Source: La Plata Economic Development Action Partnership web site (www.laplatacountycolorado.org)

³ Source: The Wilderness Society Economic Profiles for Colorado Counties (www.wilderness.org)

⁴ Source: U.S. Census Bureau Employment Data – 1997 County Business Patterns

One economic development representative and one small business representative were interviewed regarding assessment area credit needs and the performance of banks in helping to meet those needs. Contacts stated that the local economy is stable, but has faced challenges over the past decade. Natural phenomena such as major forest fires have combined with terrorist attacks, fugitive escapes, and a national economic downturn to reduce tourism revenues.

Contacts identified lending to small businesses as a prevalent need, and stated their belief that local financial institutions were meeting this need. Contacts did not identify any unmet credit needs in the local area.

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. A bank's loan-to-deposit ratio is one indicator of the bank's ability and willingness to meet community credit needs.

The Bank of Durango's average quarterly loan-to-deposit ratio is considered reasonable, given the bank's size, financial condition, and assessment area credit needs. Over the 16 quarters since the previous performance evaluation, the bank's average loan-to-deposit ratio was 72.5 percent. This ratio compares favorably to the 75.0 percent average loan-to-deposit ratio of the bank's primary competitor, a large local institution with assets double those of the subject bank. The Bank of Durango's loan-to-deposit ratio also is higher than the average of local competitors, at 65.9 percent. The state average for Colorado nonmetropolitan banks over the same period was 69.3 percent. The bank's ratio also is higher than that of its national peer group average over the same period, of 62.1 percent.

Lending in the Bank's Assessment Area

This core performance criterion evaluates the concentration of loans originated by the bank in its assessment area. A majority of lending in the assessment area is another indicator of a bank's willingness and ability to meet community credit needs.

An analysis of The Bank of Durango's lending data shows that a majority of loans and other lending-related activities are in the assessment area. The analysis, shown in Table 3, was performed using a statistically-derived sample of loans. The sampling revealed that 76 percent of loans and 66 percent by dollar amount were made within the bank's assessment area, representing a reasonable distribution.

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	Percent	Dollar Amount Of Loans	Percent	Number of Loans	Percent	Dollar Amount of Loans	Percent
Consumer Motor Vehicle Secured Loans	21	84	\$212,560	81	4	16	\$48,997	19
Small Business	21	70	\$1,486,032	64	9	30	\$819,177	36
TOTAL	42	76	\$1,698,592	66	13	24	\$868,174	34

Geographic Distribution of Loans

This core performance criterion focuses on the bank’s lending in geographies of different income levels in the assessment area. The geographic distribution of the bank’s lending activity based on 1990 demographics appears less than reasonable. However, considering the bank’s performance context for the year 2002, the dispersion of the bank’s lending activity is reasonable.

Motor Vehicle Secured Loans

Table 4 illustrates the bank’s consumer lending within its assessment area by the income level of the geography. As discussed in the description of the bank’s assessment area, the changing profile of the one moderate-income BNA, from residential to primarily commercial and industrial, has limited the bank’s opportunities to make consumer loans in the area. According to the table, the bank did not make any loans within the moderate-income geography. Although 1990 census data indicate that 12 percent of households are within this geography, the approximate percentage today would be much lower. Furthermore, preliminary 2000 census data reveals that the area is no longer considered a moderate-income geography. Therefore, while the loan distribution reveals a less than reasonable penetration, only nominal weight is assigned to this analysis.

Small Business Loans

Table 4 also outlines the distribution of small business loans across geographies of different income levels. The bank originated 24 percent by number and 22 percent by dollar volume of its small business loans within the moderate-income BNA, while 37 percent of small business are located within the geography. Although this seems to reflect a somewhat weaker penetration, the dynamics and the changing income level of the geography over the last decade indicates a lending pattern that is reasonable.

TABLE 4 DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF THE BLOCK NUMBERING AREA *						
Loan Type	Moderate-Income		Middle-Income		Upper-Income	
	#	\$	#	\$	#	\$
Motor Vehicle (21 Total)	0	0	19	\$188,486	2	\$24,074
Percent of Total	0	0	90	89	10	11
Small Business (21 Total)	5	\$325,936	16	\$1,160,096	0	0
Percent of Total	24	22	76	78	0	0
Percentage of Households by Income Level of BNA (1990 census data)	12		76		12	
Percentage of Businesses by Income Level of BNA (2001 Dun & Bradstreet data)	37		58		5	

* There are no low-income BNAs in the bank's assessment area.

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 gross annual revenues. The overall distribution of loans in the bank's assessment area represents a reasonable penetration of lending to individuals of different income levels and to businesses of different sizes. The bank's lending distribution among low- and moderate-income borrowers reflected poor penetration for motor vehicle-secured loans; however, the bank's lending distribution to small and very small businesses reflected an excellent penetration among businesses of different sizes.

Motor Vehicle-Secured Loans

Table 5 indicates that 14 percent of motor vehicle-secured loans and 16 percent of the dollar amount of loans were made to low- and moderate-income borrowers. Community demographics reflect that 21 percent of the assessment area households are considered low-income, and 16 percent are considered moderate-income households. Therefore, the bank's lending compares less favorably to the number of low- and moderate-income households, resulting in a less than reasonable penetration amongst borrowers of different incomes.

The limited lending penetration among low-income borrowers is not unusual in communities with poor housing affordability. According to 1990 census statistics, 37 percent of low-income borrowers in the assessment area spend greater than 30 percent of their income on housing costs. High housing expenditures limit the amount of income that low-income borrowers can apply toward the purchase of an automobile, which, in turn, may reduce the capacity of borrowers in this demographic to obtain motor vehicle loans. The competitive environment in which the bank operates also impacts the bank's motor vehicle-secured lending among low- and moderate-income borrowers. Regional institutions with a consumer lending focus may offer programs that are more suitable for the needs of low- and moderate-income individuals.

**TABLE 5
DISTRIBUTION OF MOTOR VEHICLE LOANS
WITHIN THE ASSESSMENT AREA
BY INCOME LEVEL OF BORROWER (21 loans in sample)¹**

	Low	Moderate	Middle	Upper
Number of Motor Vehicle Loans	3	1	6	11
Percent of Total Motor Vehicle Loans in Sample	14	5	29	52
Dollar Amount of Motor Vehicle Loans	\$25,456	\$7,840	\$73,607	\$105,657
Percent of Total Dollars in Sample	12	4	34	50
Number of Households by Income Level²	2,576	1,897	2,225	5,265
Percentage of Households in the Assessment Area Having this Level of Income²	21	16	19	44

¹ Income used to establish borrower income categories is derived from 2002 HUD adjusted median family income figures.

² Data on number and percentages of households is derived from 1990 U.S. Census Data.

Small Business Loans

Table 6 indicates that 95 percent by number and 98 percent by dollar amount of commercial loans were made to businesses with gross annual revenues of \$1,000,000 or less. According to Dun & Bradstreet's 2001 data, 89 percent of the businesses in the bank's assessment area have gross annual revenues of less than \$1,000,000. In addition, one-third of the bank's loans were made to very small businesses with gross annual revenues under \$100,000. Moreover, the bank is a regional certified Small Business Administration (SBA) lender with experience and a market niche in small business lending. The bank's lending to small businesses of different revenue sizes is considered excellent.

TABLE 6				
LENDING TO BUSINESSES OF DIFFERENT SIZES WITHIN THE ASSESSMENT AREA				
Gross Annual Revenue	Number of Business Loans	%	Total Dollar Amount of Loans	%
Less than \$100,000	7	33	\$472,030	32
\$100,000 to \$250,000	5	24	\$297,622	20
\$250,001 to \$500,000	1	5	\$43,580	3
\$500,001 to \$1,000,000	7	33	\$632,700	43
Greater than \$1,000,000	1	5	\$40,100	2
TOTALS	21	100	\$1,486,032	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 evaluated.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

There were no violation 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. Further the bank was not engaged in any other, illegal credit practices inconsistent with helping to meet community 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 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.

Block Numbering Areas (BNAs) – BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

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).

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 banks assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area 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 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.

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.”