



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 18, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Arvada
Charter Number 7501**

**7530 Grandview Avenue
Arvada, CO 80001**

**Comptroller of the Currency
Denver Field Office
1099 18th Street Suite 2650
Denver, CO 80202**

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

First National Bank of Arvada (FNBoA) satisfactorily meets the credit needs of its assessment area, including low- and moderate-income individuals and areas, consistent with its resources and capabilities. This rating is supported by the following:

- The bank's loan-to-deposit ratio meets the standards for satisfactory performance.
- The level of lending within the assessment area is satisfactory.
- The distribution of loans to borrowers of different incomes and businesses of different sizes is satisfactory.
- Geographic penetration of commercial and residential loans in the assessment area is satisfactory.

DESCRIPTION OF INSTITUTION

First National Bank of Arvada (FNBoA) is a commercial bank headquartered in Arvada, Colorado. FNBoA is wholly owned subsidiary of Fremont Bank Corporation, a multi-bank holding company located in Canon City, Colorado. Fremont Bank Corporation owns three additional banks, Fremont National Bank and Centennial Bank of Blende, which are located in Colorado, and InterAmerica Bank, located in Albuquerque, New Mexico. Fremont Bank Corporation's total assets as of December 31, 2000, were \$321 million. Total asset size of FNBoA was \$142 million as of December 31, 2000, with net loans to total assets of 62%. The bank received a Satisfactory rating at the last CRA examination, performed May 19, 1997.

FNBoA operates three locations, all in Arvada, Colorado. This includes the main bank, a full-service branch that is also the bank's commercial loan center, and the mortgage loan center. The bank has three automated teller machines (ATMs), with one each located at the main bank, a convenience store, and a recreational facility in Arvada. FNBoA also has a designated "mobile branch," consisting of courier services provided to area businesses for collection of deposits and other documentation. The bank had a loan production office in Longmont, Colorado that closed in January 2000, when the full-service branch was opened in Arvada.

FNBoA is a full-service banking institution, offering various commercial and retail banking services. The bank's two primary product lines are commercial loans and residential real estate loans. The bank is a Certified Small Business Administration lender. Residential real estate lending also includes the purchasing of individual real estate loan participations and pools of real estate loans from another financial institution. The loan pools are housed in the commercial loan real estate portfolio and the individual participations are in the real estate portfolio. The following table shows the distribution of the bank's loan portfolio as of December 31, 2000.

| LOAN DISTRIBUTION | | |
|--------------------------|------------------|-------------|
| Loan Type | Volume (\$000's) | % \$ Volume |
| Commercial/Commercial RE | \$47,505 | 52% |
| Residential RE | \$34,818 | 34% |
| Construction/Development | \$ 4,197 | 5% |
| Consumer | \$ 4,170 | 6% |
| Other | \$ 2,665 | 3% |

FNBoA's financial condition is satisfactory and does not hinder its ability to service customer needs. Factors that impact the bank's ability to make loans in its primary product line and to penetrate its entire assessment area include its small size, limited delivery system and strong competition from other financial institution in the metropolitan area.

DESCRIPTION OF DENVER/BOULDER ASSESSMENT AREA

FNBoA has designated the combined metropolitan statistical areas (CMSA) of Denver and Boulder as its assessment area (AA). This consists of six contiguous counties, five in the Denver MSA and one in the Boulder MSA. The counties are Adams, Arapahoe, Denver, Douglas, Jefferson, and Boulder. The AA complies with regulatory guidelines and does not arbitrarily exclude any low- and moderate-income areas. This CMSA consists of 556 census tracts. Characteristics of each MSA are described below.

DENVER MSA - #2780

The Denver MSA portion of the bank's AA consists of five contiguous counties and is characterized as the Denver metropolitan area. The Denver metropolitan area is home to 49% of Colorado's residents and 53% of its jobs. For the past few years, the Denver MSA has enjoyed a booming economy with a diverse employment base. The strong economy has been fueled by large municipal and commercial construction projects, a strong residential construction market, an influx of people, and growth in high tech firms. While the employment picture appears to be very good, a recent economic report indicates the employment growth Denver has enjoyed during the past five years showed signs of slowing down in 2000. This is partly due to layoffs in the manufacturing sector and partly due to mergers and acquisitions in the telecommunications industry, which has grown rapidly and become an important sector of the local economy. Unemployment levels in the Denver metropolitan area currently averages below 3%.

The MSA contains 498 census tracts, 87 of which do not have any reportable income information. The chart below reflects the income designations of geographies by number and percent and the percent of low- and moderate-income families within each income level. For comparison purposes, it also shows the percent of owner-occupied housing in each of the geographic areas in the AA.

| GEOGRAPHIES BY INCOME LEVEL AND FAMILIES BY INCOME LEVEL WITHIN THOSE GEOGRAPHIES | | | | |
|--|----------------------------|--------------------------------|--|---|
| Geographic Area | Number of CTs in AA | Percentage of CTs in AA | Percentage of Owner-Occupied Housing by Geography | Distribution of Low-and Moderate Income Families in AA by Percentage |
| Low | 34 | 7% | 4% | 19% |
| Moderate | 109 | 22% | 20% | 19% |
| Middle | 162 | 33% | 45% | 24% |
| Upper | 107 | 21% | 31% | 38% |
| NA | 87 | 17% | 0 | 0% |

The population of the Denver MSA is 2,109,282 based on 2000 Census Bureau data. This is a 30 percent increase in population from the 1990 Census. Because of the significant increase in population, the demand for housing and real estate prices have escalated dramatically. According to a recent article in the *Denver Business Journal*, the median price of a single-family home in the Denver metropolitan area is \$205,000. The 2000 HUD updated median family income for the Denver MSA is \$62,100. Few low- and moderate-income families can afford to purchase homes. Upper income individuals have begun relocating to urban areas, which have traditionally been moderate-income areas. There is an increasing desire to live in the city, and this also contributes to the rise in real estate prices.

Major employers in the Denver MSA are Qwest, King Soopers, United Airlines, Columbia-HealthOne, and Lucent Technologies, to name a few. The Denver economy is characterized as softening, although job gains remain well above average. Solid economic growth is expected to continue, with the most significant deterrent to growth being the lack of available workers and fast-rising housing costs.

FNBoA does not have a significant deposit or lending market share in the Denver MSA. Competition from regional banks, other federal institutions, state banks, and mortgage companies is strong and impacts the bank's ability to have a strong presence in all areas of the AA. Some of these financial institutions include Wells Fargo Bank, U.S. Bank, First Trust Corporation, Bank One, Colorado, Commercial Federal Bank, World Savings Bank, Norwest Mortgage, Inc., and Countrywide Home Loans.

BOULDER-LONGMONT MSA - #1125

The Boulder-Longmont MSA consists of Boulder County. This MSA is located about 25 miles north of Denver and is part of Colorado's Front Range, which stretches from Fort Collins to Colorado Springs. The Boulder MSA is the third largest MSA in Colorado. Boulder County's population is primarily concentrated in the eastern portion of the county. The western portion of the county, which lies in the Rocky Mountains, is sparsely populated. Like the Denver MSA, the Boulder-Longmont MSA has enjoyed a booming economy for the past few years. The economy has been fueled by an influx of high-tech businesses, which in turn have spurred construction projects for retail, residential, and commercial use.

The MSA contains 58 census tracts, one of which does not have any reportable income information. The chart below reflects the income designations of geographies by number and percent and the percent of low- and moderate-income families within each income level. For comparison purposes, it also shows the percentage of owner-occupied housing in each of the geographic areas in the AA.

**GEOGRAPHIES BY INCOME LEVEL AND FAMILIES BY INCOME LEVEL
WITHIN THOSE GEOGRAPHIES**

| Geographic Area | # of CTs in AA | % of CTs in AA | Percentage of Owner-Occupied Housing by Geography | Distribution of Low- and Moderate-Income Families throughout AA |
|------------------------|-----------------------|-----------------------|--|--|
| Low | 2 | 3% | .02% | 18% |
| Moderate | 9 | 16% | 15% | 18% |
| Middle | 28 | 48% | 52% | 26% |
| Upper | 18 | 31% | 33% | 38% |
| NA | 1 | 2% | 0 | 0% |

Boulder County has a population of 291,288 based on 2000 Census Bureau data. This is a 29 percent increase in population from the 1990 Census. Boulder, the largest city in Boulder County, is the ninth largest city in Colorado. Although most of Boulder County has experienced substantial growth, the city of Boulder has not experienced the growth that the rest of the county has reported. This is due to the city's self-imposed growth moratorium.

Because of the significant increase in population, the demand for housing and real estate prices have escalated dramatically. The slow growth policies have contributed to the high cost of housing in Boulder County, spurring residential construction in small communities and in eastern Boulder County. According to the Boulder County Assessor, the average price of a single-family home in Boulder County in 2000 was \$259,000. The 2000 HUD updated median family income for Boulder County is \$74,000. Few low- and moderate-income families can afford to purchase homes.

Major employers in the county are IBM, Sun Microsystems, Storage Technologies, Boulder Community Hospital, University of Colorado, and Ball Corporation. As of December 2000, the unemployment rate for the county is 2%. The economy is strong and stable, with retail sales up 15% over 1999 levels.

FNBoA operates in a very competitive banking environment. Boulder County boasts a significant number of national banks, state banks, and other federal savings banks. In the county, 26 other institutions operate from 91 locations. Due to its size and location, FNBoA does not have a measurable market share of deposits or real estate loans in the county.

We contacted a community economic development organization to obtain information regarding credit needs in the bank's assessment area and the condition of the local economy. We also reviewed four recent community organization contacts conducted by other regulatory agencies. These organizations specialize in promoting business and affordable housing opportunities in the community. They identified the need for affordable housing and home ownership counseling to low-and moderate-income families as well as the need for small business loans, particularly start-up funding.

CONCLUSIONS ABOUT 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 67%. Four other area financial institutions of similar size and characteristics have 15-quarter loan-to-deposit averages of 66%, 72%, 74%, and 79%. These institutions are three state banks and one national bank. They are suitable comparisons due to their similar size and business focus. Other area institutions, such as regional banks with larger asset size or dissimilar product mix are not suitable for comparison.

Lending in the Assessment Area

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

FNBoA's level of lending is satisfactory given the bank's size, metropolitan location, competition, and assessment area needs. Our analysis of lending in the assessment area was determined from a review of the bank's two primary loan products, commercial loans and residential real estate loans. We identified a random sample of 40 commercial loans originated and outstanding since the last CRA examination to determine the level of commercial lending in and out of the bank's assessment area. Due to the bank's recent computer conversion, we were unable to draw our sample from total originations and purchases made since the previous CRA examination.

We also analyzed 297 residential real estate loans originated and purchased from 1997 through 2000 and reported on the bank's HMDA Loan Application Register (HMDA-LAR). In 2000, the bank purchased 47 real estate loan participations from another financial institution with originations that total \$5.9 million. These loans are not included on the bank's HMDA-LAR. Management stated that a significant majority of these participated loans are located within the bank's assessment area but they are not included in our analysis. The bank originated a majority of its HMDA reported residential real estate loans in the assessment area by number and dollar volume. A majority of the commercial loans we sampled are located within the assessment area by both number and dollar amount. The following table demonstrates the distribution of commercial and real estate loans originated inside FNBoA's assessment area.

| LENDING WITHIN THE ASSESSMENT AREA | | |
|---|---|--|
| Loan Type | Loans in the AA based on Number of loans in Sample | Loans in AA based on Dollar Amount of Loans in Sample |
| Commercial Loans | 88% | 82% |

| | | |
|-------------------------------|-----|-----|
| Residential Real Estate Loans | 79% | 77% |
|-------------------------------|-----|-----|

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.

We used the bank’s primary product lines, commercial loans and residential real estate loans, to determine the level of lending to borrowers of different incomes and businesses of different sizes. Commercial loans comprised 52% of the bank’s loan portfolio by dollar amount as of December 31, 2000. Residential real estate loans comprised 34% of the loan portfolio by dollar amount.

We reviewed a sample of 40 commercial loans to determine the level of lending to businesses of different sizes. Commercial loan originations and purchases within the bank’s assessment area satisfactorily demonstrate that the bank is extending loans to businesses of various sizes, with the majority to small businesses. Businesses with gross revenues of \$1 million and below are designated “small business.” Updated business demographic data reflects that 87% of the businesses in the assessment area are designated small business. The bank originated 75% of the loans in our sample to small businesses. Although the bank’s loan penetration by revenue size is below area demographics, our sample reflects that 50% of the originated loans were to businesses with revenues under \$500,000. This further demonstrates the bank’s commitment to make loans available to small businesses, an identified community credit need. Factors that impact the bank’s ability to meet demographics include its size, limited branching system, and strong competition. The following table reflects the distribution of loans by business revenue size and dollar amount of loans.

| DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE AND LOAN SIZE | | | | |
|---|------------------------|---|--|---|
| Revenue Size | Number of Loans | Percent of Loans Based on Number in Sample | Percent of Loans Based on Dollars in Sample | Reported Non-Farm Businesses in AA by Revenue Size |
| Less than \$1 Million | 30 | 75% | 67% | 87% |
| Greater than \$1 Million | 10 | 25% | 33% | 8% |
| Not Reported | 0 | 0 | 0% | 5% |

HMDA-reported residential real estate loans originated and purchased since the last CRA examination satisfactorily demonstrates that the bank is extending loans to consumers of different income levels. The bank shows stronger performance in extending loans to low- and moderate-income families in the Boulder-Longmont MSA than in the Denver MSA. Overall performance is satisfactory given the competitive environment, the bank’s location in the AA, and its limited delivery system.

The following tables show the distribution of residential-secured loan products to borrowers of different income levels. Lending penetration by income level is evaluated for each of the MSAs

in the bank’s assessment area due to the significant difference in median family income levels. The first table reflects distribution of loans by income level in the Denver MSA. The second table reflects distribution of loans by income level in the Boulder MSA.

| DISTRIBUTION OF REAL ESTATE LOANS BY INCOME LEVEL - DENVER MSA | | | | |
|---|------------------------|-----------------|---------------|--------------|
| | Borrower Income | | | |
| | Low | Moderate | Middle | Upper |
| Distribution of Families in MSA by Income Level | 19% | 19% | 24% | 38% |
| Loans in MSA by Number | 16 | 22 | 28 | 66 |
| Percent of Loans Made by Number | 11% | 16% | 20% | 47% |
| Percent of Loans Made by Dollar* | 11% | 13% | 19% | 49% |

*6% by number and 8% by dollar had no income figures available on HMDA-LAR

The distribution of HMDA reported real estate loans in the Denver MSA 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 10% of the low-income families are below the poverty level in the Denver MSA. This makes it difficult to qualify to purchase these products. The number of loans to moderate-income families approximates the demographic data and is adequate. The dollar amount of loans to both low-income families and moderate-income families is below demographics. This performance is mitigated by several factors. There is strong competition for residential loans in the Denver MSA, provided by more than 700 financial institutions, mortgage companies, and other non-bank entities. The bank’s small size, location in the MSA, and lack of branching outside of the Arvada area prevents a stronger impact in the Denver MSA. FNBoA’s lender market share in the Denver MSA is less than one-half percent.

| DISTRIBUTION OF REAL ESTATE LOANS BY INCOME LEVEL - BOULDER-LONGMONT MSA | | | | |
|---|------------------------|-----------------|---------------|--------------|
| | Borrower Income | | | |
| | Low | Moderate | Middle | Upper |
| Distribution of Families in MSA by Income Level | 18% | 18% | 26% | 38% |
| Loans in MSA by Number | 21 | 20 | 32 | 22 |
| Percent of Loans Made by Number | 22% | 21% | 34% | 23% |
| Percent of Loans Made by Dollar | | | | |

| | | | | |
|--|-----|-----|-----|-----|
| | 17% | 19% | 39% | 25% |
|--|-----|-----|-----|-----|

The distribution of the number of real estate loans in the Boulder-Longmont MSA reflects that there is a good penetration of loans to both low-income families and moderate-income families. The number of loans originated to low- and moderate-income families is above area demographics and reflects responsiveness to an identified credit need. The dollar amount of loans to low income families nearly meets area demographics. And the dollar amount of loans to moderate-income families is above area demographics. Having a loan production office in the Longmont area of the Boulder MSA made these products more readily available to area borrowers.

Geographic Distribution of Loans

- Geographic penetration of commercial and residential loans in the assessment area is satisfactory.

We reviewed a sample of 40 commercial loans that were originated between 1997 and 2000 and are still outstanding. Small business lending is the bank’s primary business focus. Loan penetration in low-income census tracts is close to area demographics and satisfactory. Six percent of the businesses in the bank’s assessment area are located in low-income tracts. Five percent by number of the loans in our sample were located in low-income tracts. The dollar volume of loans extended to businesses in low-income census tracts is commensurate with the percentage of loans extended and reasonable.

Commercial loan penetration in moderate-income census tracts is good. It is significantly above area demographics in number of loans originated and a similar percentage by loan volume. The following table reflects penetration of the bank’s business loans in the assessment area by number and dollar.

| COMMERCIAL (NON-FARM) LOANS | | | | |
|------------------------------------|--|--|----------------------------------|---|
| Income Tract Levels | Number of CTs in AA by Income Tract Level | Non-Farm Business Distribution in CTs | % of Loans Made by Number | % of Loans Made by Dollar Volume |
| Low Income | 36 | 6% | 5% | 8% |
| Moderate Income | 118 | 23% | 30% | 30% |
| Middle Income | 190 | 42% | 30% | 19% |
| Upper Income | 125 | 29% | 35% | 43% |
| NA | 87 | 0% | 0% | 0% |
| Total | 556 | 100% | 100% | 100% |

We reviewed all the reported HMDA loans originated and purchased between 1997 and 2000. For our analysis we combined the Denver MSA and Boulder-Longmont MSA to determine penetration throughout the entire AA. Loan penetration is reasonable for low-income borrowers compared to the percentage of owner-occupied housing units. Three percent of the owner-occupied homes in the AA are in low-income census tracts. The bank made one percent of its real estate loans in these census tracts. The number of owner-occupied units in low-income tracts is similarly low, with a greater percentage of units renter-occupied. This makes the opportunities for loans in these areas lower than in tracts where more of the housing units are owner-occupied. The bank's size and lack of a branch network in low-income areas in the Denver MSA limits the ability to have a strong presence in these tracts. Many of the low-income tracts are located in the Denver inner city and borrowers living in these tracts are less likely to seek a lending relationship with a bank in a suburb. Current revitalization of many of these areas also constricts the opportunities for low-income borrowers to purchase homes due to steeply rising costs and low inventory. The low-income census tracts in the Boulder MSA are the physical location of the University of Colorado and student housing, explaining lower penetration in this portion of the bank's assessment area.

Residential real estate loans extended in moderate-income areas exceed area demographics and are good. The percentage of owner-occupied housing units is larger and there are a higher number of moderate-income census tracts surrounding the bank's location. The following table reflects penetration of the HMDA reported real estate loans in the bank's AA compared to the percent of owner-occupied housing inventory in each income tract.

| RESIDENTIAL REAL ESTATE LOANS | | | |
|--------------------------------------|--|---|---|
| Income Tract Levels | CTs in AA by Income Tract Level | Percent Owner-Occupied Housing by Income Tract | Distribution of HMDA Reported Loans by % |
| Low Income | 36 | 3% | 1% |
| Moderate Income | 118 | 19% | 26% |
| Middle Income | 190 | 46% | 54% |
| Upper Income | 125 | 32% | 19% |
| NA | 87 | 0% | 0% |
| Total | 556 | 100% | 100% |

Our analysis of geographical penetration of the census tracts in the bank’s assessment area did not reflect lending in all tracts. However, we did not note any unexplained conspicuous gaps. The bank has a very large assessment area. The bank’s location in the assessment area, lack of branch facilities, and strong competition throughout the five-county area limits its ability to penetrate all tracts in the assessment area.

Response to Complaints

- FNBoA did not receive any CRA-related complaints 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 March 31, 1997.