



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 20, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Durango
Charter Number: 2637

259 West 9th Street
Durango, Colorado 81301

Office of the Comptroller of the Currency

ARIZONA & NEW MEXICO
9633 South 48th Street Suite 265
Phoenix, Arizona 85044

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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The overall performance of The First National Bank of Durango (FNBD) is Satisfactory. Primary factors contributing to the bank's rating follow.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) needs.
- A substantial majority of the bank's loans are made inside the AA.
- Borrower distribution of loans, including loans to low- and moderate-income (LMI) borrowers, reflects reasonable penetration given the demographics of the AA.
- Community development (CD) activities, including CD lending, services, and qualified investments, demonstrate adequate responsiveness to needs in the bank's AA.

Scope of Examination

This examination consisted of a full scope review of the bank's single AA. An Intermediate Small Bank examination consists of two tests. The lending test covers the evaluation period of 2006, 2007 through year-to-date June 30, 2008. The CD test includes all activities since the last Community Reinvestment Act (CRA) examination as of September 27, 2004 through the start date of this examination. We identified business and consumer loans as the bank's primary products based on the number and dollar amount of loans originated during the evaluation period. There were no affiliate loans to review.

We sampled 20 loans from each of the bank's primary loan products. The data from the original business and consumer loan sample was used to calculate the inside/outside AA ratio. To perform other lending tests, we eliminated loans outside the AA from the original sample and added enough additional loans to provide a sample of 20 business and 20 consumer loans inside the AA. The sample is representative of the bank's business strategy since the last examination.

Description of Institution

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. The bank was previously rated Satisfactory at its last CRA examination as a small bank.

FNBD is a community bank headquartered in Durango, Colorado which is a non-metropolitan area in the southwestern part of the state. As of June 30, 2008, FNBD had \$398 million in total assets and net total loans of \$250 million, or 62 percent of total assets. FNBD operates a main office, and four branches all located in La Plata County. It does not own or operate any deposit-

taking ATMs. The bank opened one branch in Bayfield, Colorado in December 2005, and also acquired another office in Durango as a result of the merger with the Bank of Durango in April 2007. It has not closed any branch offices during the evaluation period. The bank is a member of a two-bank holding company, First Bancorp of Durango, Inc., which owns 100 percent of FNBD. The other bank is Grants State Bank in Grants, New Mexico. There are no affiliates.

FNBD's primary lending focus is small business and consumer loans. For the evaluation period, the commercial loans represented 24 percent of the number and 61 percent of the dollar amount of the bank's total loan portfolio. The consumer loans represented 64 percent of the number and 22 percent of the dollar amount of the bank's total loan portfolio.

Additional details about the bank may be found in its Public File at the main office.

Description of La Plata County Assessment Area

FNBD has designated all 10 census tracts (CT) in La Plata County, Colorado as its AA, including the towns of Durango, Bayfield, Ignacio, Hesperus, and portions of the Southern Ute and Ute Mountain Indian Reservations. The entire area is a non-metropolitan area. Nine CTs in the county are middle- and upper-income and one CT has been assigned a NA category. The NA category consists of geographies that have not been assigned an income classification. The AA meets the legal requirements of the regulation and does not arbitrarily exclude LMI geographies. The HUD updated Median Family Income (MFI) for the area in 2007 was \$52,400.

The economy of La Plata County is based in services and government. Major employers include the Southern Ute Indian Tribe, Mercy Medical Center, and various governmental employers including the local school district and college, and federal, state, county, and local government. Tourism plays a large part in the local economy, but no single employer covers that segment of the economy. The employment base for tourism is centered in the accommodation and food services industry, and retail trade. Construction previously provided some economic diversification, but has dropped off in recent months. Local economic conditions are somewhat unstable. Over the last three years, unemployment for the area had fallen from 4.1 percent in 2004 to 2.8 percent in 2007, but has risen again for the first six months in 2008 to 3.7 percent. This is due in part to similar problems across the nation with a mortgage crisis and high gasoline prices. The La Plata County economy is also seasonal in nature, so some sectors of the local economy vary during the year as part of its normal cycle, and unemployment is generally higher during the winter months than the summer.

Competition for financial services is strong. The annual FDIC Deposit Market Share Report for June 30, 2008 shows nine financial institutions competed for over \$1 billion of insured deposits. The nature of the competition includes eight banks with 15 branches representing a variety of nation-wide, regional, and local banks (not including credit unions and non-bank financial institutions) comprising over 68 percent of the deposit market share. However, FNBD has the largest single market share at 32 percent. All of the other competitors have access to other loans and deposits outside the local market, and six of them have significant presence in locations outside La Plata County. There are no similarly situated banks in the marketplace. Similarities would be identified in terms of size, geographic presence, and line of business. One competitor is a mega-bank with a nation-wide presence. Four are regional banks, each with over \$1 billion

in deposits outside this marketplace. The other three are community banks smaller than FNBD. Some of these institutions were used to evaluate the bank’s LTD ratio.

To gather more current information on the nature of the economic conditions and potential community development opportunities in the AA, we contacted a local community leader during this examination. The contact was with an agency that provides lending and technical assistance to small businesses in southwestern Colorado. The contact stated that small business credit needs are being met by various financial institutions in the area that his agency serves. The financial institutions also support his agency with financial expertise on his board and loan committees. He stated that he looks forward to the financial institutions partnering with his organization in upcoming equity financing partnerships and green industry/sustainability projects. The contact reported area economic conditions were in a slow-down, especially in the construction industry, but also in retail trade, which depends to a certain extent on tourism in the area. Although his focus is small businesses, he also identified affordable housing as a primary need in the community.

Maps and additional information about the bank’s AA may be found in the Public File, maintained at the main office of the bank.

Conclusions with Respect to Performance Tests

The bank’s overall CRA performance is *Satisfactory*. This is supported by separate conclusions for the lending test and the community development test.

LENDING TEST

The bank’s performance under the lending test is rated satisfactory.

Loan-to-Deposit Ratio

FNBD’s LTD ratio is reasonable given the bank’s size, financial condition, and credit needs of the AA. As of June 30, 2008, the bank’s quarterly average LTD for the last 16 quarters was compared with other financial institutions operating within the AA. The results are summarized below.

Bank	Average Quarterly Loan-to-Deposit Ratio
<i>First National Bank of Durango</i>	73%
Average of 4 other banks in the AA	81%
Highest bank in range	92%
Lowest bank in range	65%

Source: *Uniform Bank Performance Report*

There are no true comparables for FNBD in their AA. The competitors used in the comparison above include two regional banks over \$1 billion in size, and a nation-wide bank over \$500 billion in size. These three banks all have access to substantially more markets for loans and deposits. The fourth bank in the comparison is less than half the size of FNBD.

Lending in Assessment Area

We calculated the percentage of loans inside the bank’s AA in our original sample of 20. With 90 percent of the number and 93 percent of the dollar amount of loans, FNBD’s inside/outside ratio reflects that a substantial majority of loans are inside the bank’s AA. This is detailed in the table below.

Lending inside La Plata County										
Loan Type	Number of Loans					Dollars of Loans (000’s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	18	90	2	10	20	2,768	91	264	9	3,032
Consumer	18	90	2	10	20	1,030	98	24	2	1,054
Totals	36	90	4	10	534	3,798	93	288	7	4,086

Source: Original loan sample of 40 loans for evaluation period.

We replaced the four loans outside the bank’s AA to arrive at a new sample of 40 loans. With this new sample, we analyzed the following test for borrower distribution.

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

Given the demographics of the AA, the borrower distribution reflects overall reasonable penetration among individuals of different income levels and businesses of different sizes.

Business Loans

FNBD meets the standard for loans to borrowers with gross annual revenues (GAR) of \$1 million or less. Although the table below shows the bank’s performance is slightly lower than the area business demographics, our sample also included three business purpose loans to individuals who, by definition, do not have GAR. In the table, these are shown as “unavailable.” However, these three loans ranged in size from approximately \$60 thousand to \$240 thousand. Using the loan size as a proxy for business size, these could also be considered small business loans. Given the credit needs of the area, the bank has reasonable penetration of its AA.

Borrower Distribution of Loans to Businesses in La Plata County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67	3	30	100%
% of Bank Loans in AA by #	50	25	25	100%
% of Bank Loans in AA by \$	29	38	33	100%

Source: Loan sample; Dunn and Bradstreet data. Sample unknown also includes one CD secured loan with no GAR information provided.

Consumer Loans

The bank meets the standard for satisfactory performance in overall borrower distribution for consumer loans. Performance of the sample against customer demographics for just low-income borrowers is lower than the ratio, and does not meet the standard for satisfactory performance by itself. However, over 12 percent of households are also below the poverty level, which makes qualifying for any loans difficult. In addition, the bank’s performance in loans to moderate-income borrowers significantly exceeds the ratio, which is considered excellent performance in consumer lending. Consumer loans are held to a higher performance standard than commercial or residential real estate loans because consumer loans are generally easier to obtain and easier for the bank to make. The blended effect of the bank’s performance in these two LMI categories represents a reasonable overall performance for this type of loan.

Borrower Distribution of Consumer Loans in La Plata County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	22	10	17	25	19	25	42	40

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans

We did not perform an analysis of the bank's geographic distribution of loans. The AA includes only middle- and upper-income CTs and such an analysis would not be meaningful.

Responses to Complaints

We reviewed the bank’s public file for complaints, and complaints reported to the OCC through the customer assistance hotline. No complaints have been received by the bank or the OCC relating to the bank’s CRA performance during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank does not have a formal assessment of the CD needs in its communities. However, given the need and availability for CD opportunities in the bank’s AA as determined through demographic information, other area bank Performance Evaluations, and community contacts, FNBD made an overall adequate response to the CD needs through CD loans, qualified investments, and CD services.

Number and Amount of Community Development Loans

CD lending demonstrates excellent responsiveness to needs in the AA. FNBD was able to fund \$10.7 million in CD loans meeting the size and purpose tests since the last examination. This represents 35 percent of the bank's tier one capital as of June 30, 2008. This total includes four loans aggregating over \$6.2 million made to two borrowers in La Plata County that helped to meet affordable housing needs in the area. Two of the loans required the bank to develop a 30-year fixed rate loan product they did not originally offer to facilitate the Regional Housing Authority participation in the project. The other two affordable housing loans were to a Community Development Corporation (CDC). Another loan for \$4.5 million facilitates the provision of CD services to LMI individuals, including job training and low-cost child care.

In addition, there were five loans that did not qualify as CD loans because they did not meet the size criteria, but did have clear CD purposes. This includes three loans made in partnership with an economic development organization. That helped to retain eight jobs and created seven new permanent jobs for LMI individuals.

Number and Amount of Qualified Investments

Qualified investments demonstrate poor responsiveness to needs in the AA. FNBD has not made any actual qualifying investments since the last examination. There are not many readily available investment opportunities. However, smaller donations were made to 22 qualifying organizations in the AA, totaling \$89 thousand, over more than a four year period since the last examination.

Extent to Which the Bank Provides Community Development Services

The bank demonstrates adequate responsiveness to the CD service needs in La Plata County.

We identified four organizations where seven bank employees and officers have donated time to provide technical assistance. They provided financial expertise to organizations that help meet affordable housing needs of LMI individuals, credit needs of small businesses, and provided financial education for home buyers and small business owners. The bank does not consistently track hours donated in serving these organizations, but was able to provide information after the fact representing over 700 hours of service since the last examination.

Access to the bank's retail banking services by LMI individuals is adequate. All but one of the five offices are in Durango. The bank opened one branch in Bayfield during the evaluation period and acquired another branch in Durango as a result of a merger. Branch hours are extended, including Saturdays, with full services at two of the branches located inside local retail stores. Drive-up services also offer extended hours, including Saturdays, in two motor bank locations. FNBD has not closed any branches during the evaluation period. Alternative delivery services include telephone and on-line banking for account inquiry and transfers. There are low-cost checking accounts available, including a student account. The bank does not own or operate any deposit-taking ATMs.

Responsiveness to Community Development Needs

In summary, the bank demonstrates an overall adequate responsiveness to the CD needs. The bank could be more responsive to the needs of its AA if it completed a needs assessment of the service area, developed a plan to address certain needs, and implemented the plan.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.