

PUBLIC DISCLOSURE

January 2, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Western National Bank of Colorado
Charter No. 15383**

**102 North Cascade Avenue
Colorado Springs, Colorado 80909**

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

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 CRA performance of Western National Bank of Colorado prepared by The Office of the Comptroller of the Currency, as of January 2, 2001. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

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

Western National Bank of Colorado has a Satisfactory record of meeting credit needs within the community. This rating is supported by the following:

- The loan-to-deposit ratio meets the standards for satisfactory performance.
- A significant majority of loans have been originated within the assessment area.
- The distribution of loans to small businesses is good and commercial lending represents the largest portion of lending activity.
- The distribution of loans to borrowers of different incomes is below demographics but adequate given that it is not the bank's primary lending focus.
- The geographic distribution of loans to businesses and consumer borrowers is adequate.
- The level of community development lending in the assessment area is excellent.

DESCRIPTION OF INSTITUTION:

Western National Bank of Colorado (WNB) is a commercial bank with total assets of \$270 million as of September 30, 2000. WNB is wholly owned by Sturm Banks of Colorado, Inc. (SBC), a multi-bank holding company, which reported total assets of \$808 million as of September 30, 2000. SBC owns three other national banks located in Colorado. SBC is located in Denver, Colorado, and is controlled by one individual and his family trusts.

The bank operates its main office in downtown Colorado Springs, Colorado. In addition, WNB operates four branches also in Colorado Springs. Each branch has an ATM and drive-up facility. The 24-hour ATMs allow customers to transfer funds, deposit money, inquire about balances, as well as withdraw money. The bank has not opened or closed any branches since the previous CRA examination. WNB has a trust department that offers custody services, escrows, personalized investment management, estate, IRA rollover, and trust administration. The bank also offers telephone banking, PC banking, and Internet banking.

WNB's financial condition is satisfactory and does not hinder its ability to meet community credit needs. WNB is a business-oriented bank. Primary products offered include commercial real estate and construction/development loans. Consumer products are incidental to WNB's business, although they offer home improvement and home equity loans. The bank does not have any special lending programs targeting low- and moderate-income consumers. Given the bank's emphasis, we reviewed commercial real estate loans and HMDA-related products to determine the bank's performance. The bank has an active mortgage loan department but the loans are immediately sold to the secondary market and not reflected on the bank's balance sheet. As of September 30, 2000, net loans represented 55% of total assets. The following table shows the composition of the loan portfolio as of December 27, 2000.

WESTERN NATIONAL BANK OF COLORADO		
LOAN PORTFOLIO COMPOSITION		
December 27, 2000		
Loan Type	Volume (\$000's)	% \$ Volume
Commercial Real Estate	48,967	33%
Construction/Development	41,064	27%
Commercial	26,270	17%
Consumer	18,050	12%
Vacant Land	17,107	11%
Total	151,458	100%

The bank was rated satisfactory at the previous CRA examination dated November 25, 1996.

DESCRIPTION OF EL PASO COUNTY ASSESSMENT AREA:

The Colorado Springs Metropolitan Statistical Area (MSA) is comprised of El Paso County. WNB's assessment area is El Paso County. This includes the city of Colorado Springs and the towns of Monument, Manitou Springs, Palmer Lake, and Fountain. El Paso County is located in south central Colorado. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The MSA is comprised of 84 contiguous census tracts. The following table details the number and percentage of census tracts by income level within the bank's assessment area.

ASSESSMENT AREA COMPOSITION							
Low		Moderate		Middle		Upper	
#	%	#	%	#	%	#	%
2	2	27	32	37	44	18	22

Based on 1990 U.S. Census data, the population in the assessment area is 397,014. The 1999 estimated population of the MSA is 500,000. A strong economy and job market is attributed to the increase in population. The U.S. Bureau of Labor Statistics estimated the 1999 unemployment rate at 3.2%, which is well below the national average. Much of the prosperity of the MSA is attributed to the presence of large military installations. Those are Fort Carson Army Base, Peterson Air Force Base, and the U.S. Air Force Academy. The breakdown of employment by economic sectors shows 33% in services, 23% in trade, and 16% in government. A large population of retired military personnel resides in El Paso County. Colorado Springs has also recently attracted a concentration of technology companies, further boosting economic growth.

The financial services sector is very competitive. El Paso County contains 44 regulated financial institutions. The five largest banks are Norwest Bank, U.S. Bank, World Savings Bank, Bank One, and Western National Bank of Colorado, which together hold 59% of the insured deposits.

The 2000 updated Department of Housing and Urban Development (HUD) median family income for the MSA is \$51,300. The median housing value as of first quarter 2000 is \$147,100, up 7.5% from the same period of the prior year. Based on 1990 U.S. Census data, there are 104,914 families in the assessment area of which 18% are low income, 20% moderate income, 23% middle income, and 39% upper income. Ten percent of the families are below the poverty level.

We reviewed four recent community contacts performed by the OCC and the Federal Reserve Bank. These included organizations which promote affordable housing and small business development. Community contacts in the assessment area indicate there is a need for banks to provide affordable home mortgage loans, down payment assistance, home ownership counseling, and financial counseling for low- and moderate-income individuals. There is also a need for venture capital financing for start-up businesses, as well as ongoing funding for existing businesses. Banks can also participate by holding

seminars and forums to help entrepreneurs and small businesses get started, particularly those in low- and moderate-income areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

- The bank's loan-to-deposit ratio meets the standards for satisfactory performance.

WNB's level of lending is satisfactory given the bank's size, assessment area needs, and the competitive banking market in the Colorado Springs area. The bank's average loan-to-deposit ratio for the last 15 quarters is 61%. While this ratio is slightly below the median range of banks of similar size and product base, it must be noted that loans originated in the mortgage loan department are immediately sold on the secondary market and not reflected in the bank's loan-to-deposit ratio. In 1999, the bank made 271 purchase mortgage loans totaling \$43 million. If these loans were factored into total loans, the ratio would increase to 76%. The following table shows the average loan-to-deposit ratio for banks similar to WNB in size and market area.

AVERAGE LOAN-TO-DEPOSIT RATIOS OF SIMILARLY SITUATED BANKS		
Institution	Assets (as of 6/30/00)	Average LTD Ratio
Minnequa Bank of Pueblo	309,037	75%
Pueblo Bank and Trust Co.	332,637	73%
The Bank of Cherry Creek, N.A.	256,819	67%
Citywide Banks	404,419	64%
Union Bank and Trust	371,841	59%
Mountain States Bank	235,389	53%

Lending in the Assessment Area

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

WNB exceeds the standards for satisfactory performance in lending within its assessment area. A significant majority of the loans originated, in number and dollar volume, are located within the assessment area. Our analysis included a sample of 27 commercial real estate and construction loans granted since the previous examination and all residential real estate loans reported on the HMDA-LAR for the years 1999 and 2000.

The following tables demonstrate the distribution of loans originated inside and outside WNB's assessment area.

COMMERCIAL REAL ESTATE AND CONSTRUCTION LOANS								
	Inside Assessment Area				Outside Assessment Area			
Year	#	%	\$(000's)	%	#	%	\$(000's)	%
1997-2000	26	96	13,028	99	1	4	50	< 1

HMDA REPORTED RESIDENTIAL LOANS								
	Inside Assessment Area				Outside Assessment Area			
Year	#	%	\$(000's)	%	#	%	\$(000's)	%
1999-2000	85	93	1,838	83	6	7	384	17

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

- The distribution of loans to businesses of different sizes is good. The distribution of loans to borrowers of different incomes is adequate.

The majority of business loans are made to businesses with revenues under \$1 million. Of the small businesses, 73% are to businesses with annual revenues under \$500,000. Commercial and construction lending represents the primary lending focus and accounts for a large portion of the loans originated by the bank. These loans are weighted more heavily in analyzing the bank's performance for this criteria. Lending performance to small businesses is good when compared to business demographics of the area. The bank could improve its penetration of loans to low- and moderate-income borrowers for HMDA-related loan products, such as refinancings and home improvement.

The following table reflects the distribution of loans by business revenue size.

DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE					
Revenue Size	#	%	\$(000's)	%	% of Small AA Businesses
Less than \$1 Million	22	85	7,432	35	88
Greater than \$1 Million	4	15	14,080	65	7

Total	26	100	21,512	100	95*
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*5% of business revenue not reported

The table below reflects the distribution of residential-related loan products to borrowers of different income levels.

HMDA REPORTED RESIDENTIAL LOANS BY INCOME LEVEL								
Borrower Income	Low		Moderate		Middle		Upper	
% Families	18		20		23		39	
	#	%	#	%	#	%	#	%
Total	9	10	14	16	17	19	50	55

Distribution of HMDA-reportable residential loans to borrowers of different income levels reflects that loans to low-income families are significantly below area demographics. However, it is reasonable because data indicates that 10% of the low-income population has income below the poverty level, making it difficult to qualify to purchase these products. Loans to moderate-income borrowers are slightly below demographics but is adequate given the bank’s lending focus. These loans include residential purchase, refinance, and home improvement loans.

Two recent community development loans extended by the bank also reflect favorably on low- and moderate-income borrower percentages. See the *Community Development Lending* section of this evaluation for specifics.

Competition for residential loans is strong in the Colorado Springs area. HMDA-reportable residential loans do not represent a significant portion of the loan portfolio. It is noted that WNB ranks 12th out of 90 lenders extending home improvement loans in the assessment area, which is very favorable. This underscores the bank’s willingness to competitively extend a product that is not within its main lending focus. The majority of mortgage purchase loans originated by WNB are directly sold on the secondary market and are not included on the HMDA report. Our sample does not include these loans. In 1999, the bank sold 271 mortgage purchase loans.

Geographic Distribution of Loans

- The geographic distribution of loans to businesses and consumer borrowers is adequate.

The geographic distribution of loans is adequately dispersed throughout the assessment area and meets the standard for satisfactory performance. We base this conclusion on the reasonable penetration of commercial real estate and construction loans and HMDA-LAR reportable loans located in low- and moderate-income census tracts. The following tables illustrate the geographic distribution of the bank’s lending within the assessment area.

COMMERCIAL REAL ESTATE AND CONSTRUCTION LOAN DISTRIBUTION								
Census Tract	Low		Moderate		Middle		Upper	
% Businesses	2		32		44		22	
	#	%	#	%	#	%	#	%
Total	0	0	7	27	8	31	11	42

While no loans in our commercial sample were made in the two low-income census tracts, factors mitigating the lack of loans in these areas are the low percentage of businesses in the tracts. These tracts include a hospital, several parks, a power plant, and railroad. Loan penetration in the moderate tracts, while slightly below the demographics, is adequate given that some of the tracts include military installations and undeveloped land. Our sample does not include a recent development loan made by WNB in a moderate-income census tract that provides revitalization to the area. This loan is outlined in the *Community Development Lending* section of this evaluation. If included in these figures, this and another community development loan made in moderate-income areas would bring the percentage closer to area demographics.

HMDA REPORTED RESIDENTIAL LOAN DISTRIBUTION								
Census Tract	Low		Moderate		Middle		Upper	
% Owner Occupied Units	1		19		46		34	
% Tracts by Income Level	2		32		44		22	
	#	%	#	%	#	%	#	%
Total	1	1	9	12	36	40	43	47

The distribution of loans reflects some activity in each income level and exhibits efforts to lend to individuals in each income level. HMDA-reportable loans for 1999 and 2000 reflect percentages lower than demographics for low- and moderate-income borrowers. However, they compare reasonably with the percentage of owner-occupied housing units in low- and moderate-income census tracts. Loan penetration is additionally impacted as 50% of the available housing units are rentals. Given the high level of competition for these types of loans and the fact that this is not a major lending focus, the bank's penetration is reasonable.

Community Development Lending

- The level of community development lending in the assessment area is excellent.

During the evaluation period, the bank made an excellent level of community development loans. The loans provided affordable housing and contributed to the economic stabilization and revitalization of low- and moderate-income areas. Further, these are identified credit needs in the bank's assessment area. As noted earlier, construction/development lending is the bank's primary lending focus.

The bank made two community development loans that total \$2,257,000. This represents about 11% of net Tier 1 capital and is considered a significant allocation of resources to meet important needs in the community.

The larger community development loan financed the acquisition and redevelopment of real estate near downtown Colorado Springs into a mixed-use development. The property is located in a moderate-income census tract, adjacent to a low-income tract. Existing boarded-up, dilapidated structures will be demolished; existing historic structures will be renovated; and new residential and commercial structures will be built. The property is located in a blighted area and is in an Enterprise Zone. Between 10% and 15% of the housing is set aside for low- and moderate-income families. Additionally, the commercial part of the development will create permanent jobs, many of which will be filled by residents of the surrounding low- and moderate-income census tracts.

The smaller community development loan was made to a local nonprofit organization that provides affordable housing in the Colorado Springs MSA. This \$167,000 loan is part of a complex financing package that includes loans and grants from three other public and private entities. The money financed the acquisition and renovation of a motel that will be converted into eighteen units of affordable permanent rental units. The target market for these units are families that earn 50% or less of the area median family income.

Response to Complaints

No complaints relating to the bank's CRA performance have been made since our prior examination.

Fair Lending Review

We analyzed 1997-2000 Small Business lending data, 1999-2000 Home Mortgage Disclosure Act submissions, 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 CRA examination dated November 25, 1996.