



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

August 3, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Canon National Bank
Charter Number 16392**

**816 Royal Gorge Boulevard
Canon City, Colorado 81212**

**Comptroller of the Currency
50 Fremont Street, Suite 3900
San Francisco, California 94105**

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 Community Reinvestment Act (CRA) performance of **Canon National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 3, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

The bank's record of meeting the credit needs of its assessment area is satisfactory. A majority of loans are originated in the assessment area. The bank makes loans to individuals of various income levels, including low and moderate income, and to businesses of all sizes.

DESCRIPTION OF THE INSTITUTION

Canon National Bank (Canon) is an \$80 million independent financial institution located on the Eastern slope of the Rocky Mountains in Central Colorado. Canon's main office and a branch office are located in Canon City, Colorado. In addition, Canon operates full-service branches in the communities of Pueblo, Colorado Springs, and Colorado City. Four cash-dispensing automated teller machines are located at each branch location except the main office and offer services 24 hours a day.

Since our last CRA evaluation in 1995, the bank has experienced significant growth. Total assets increased from \$46 million as of July 31, 1995, to \$80 million by June 30, 1998. The bank opened its branch in Colorado Springs in July 1996, and purchased an existing financial institution in Colorado City in July 1997. These new offices, as well as stable growth at the bank's previously existing locations, are responsible for this growth.

Canon offers a wide range of consumer, real estate, commercial, and agriculture loans. As of June 30, 1998, the bank's loan portfolio totaled \$56 million. The table below details the bank's loan portfolio by product type for the first six months of 1998.

CANON NATIONAL BANK LOAN PORTFOLIO	
Loan Type	Percent of Average Gross Loans
Commercial	40
1- to 4-Family Residential Real Estate	37
Individual	14
Construction and Development	8
Agricultural	1
Total	100

Canon received a "Satisfactory" rating at its August 28, 1995, CRA examination. There are no legal or financial impediments which preclude the bank from its obligation under the CRA.

DESCRIPTION OF ASSESSMENT AREA

The bank has identified the contiguous counties of Fremont, Pueblo, El Paso, and Huerfano on the Eastern slope of the Rocky Mountains in central Colorado as its assessment area. El Paso and Pueblo Counties contain the Colorado Springs and Pueblo Metropolitan Statistical Areas (MSAs). The

assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The total population of the assessment area is estimated at 558,000. The area has generally been experiencing strong growth. Unemployment is low at approximately 3%. Twelve percent of the residents in the area live below the poverty line. The following chart reflects income characteristics by census tract/block numbering area (BNA) and number of families in the assessment area.

CANON NATIONAL BANK ASSESSMENT AREA				
Income levels	Number of Census Tracts & BNAs	Percent*	Number of Families	Percent
Low	6	4	28,771	19
Moderate	47	33	28,533	19
Middle	60	42	33,811	23
Upper	29	21	57,298	39
Total	142*	100	148,413	100

*Three tracts reported no income information. Percent calculated based on reporting census tracts.

Colorado Springs MSA

El Paso County is also known as the Colorado Springs MSA. El Paso County contains a majority of the assessment area population (397,000) which is centered in the communities of Colorado Springs, Security, and Widefield. The area has experienced strong growth. Employment is dominated by three military bases and the United States Air Force Academy. The MSA contains 84 census tracts including: 18 upper income, 37 middle income, 27 moderate income, and 2 low income. The estimated MSA median family income is \$45,800 for 1998. Thirteen independently chartered bank's are located in Colorado Springs as well as branches of other community and regional banks.

Examiners reviewed the results of two community contacts in Colorado Springs made by the Federal Deposit Insurance Corporation as well as one contact made by the Office of the Comptroller of the Currency. These contacts were all made in 1997. Two contacts were representatives of the city of Colorado Springs. The other contact was a representative of a local realtor's association. Credit needs identified through these contacts were primarily related to low- and moderate-income housing. Contacts indicated financial institutions' efforts to meet the credit needs of the community are satisfactory.

Pueblo MSA

The Pueblo MSA consists of Pueblo County, Colorado. Pueblo County has a population of 123,000 centered in the city of Pueblo. Major employers include various light manufacturing and warehouse facilities as well as county, city, and federal government. The MSA contains 48 census tracts including: 11 upper income, 18 middle income, 14 moderate income, 3 low income, and 2 tracts reporting no income information. The estimated MSA median family income is \$35,300 for 1998. Two large independently chartered banks are located in Pueblo as well as several branches of other community and regional banks.

Examiners reviewed the results of two community contacts in Pueblo made by the Office of the Comptroller of the Currency and one contact by the Federal Deposit Insurance Corporation. These contacts were all made in 1997. Two contacts were representatives of economic development organizations. The other contact was a local government representative. Contacts indicated financial institutions are generally meeting area credit needs. Two contacts indicated area residents could benefit from educational programs on how to apply for credit and build a good credit history.

Fremont and Huerfano Counties

Fremont County has a population of 32,000. Canon City (13,000) is the largest city in the county and is the location of the bank's main office. Several prisons located in Fremont County are major employers in the area. The Royal Gorge and The Arkansas River are located in the county and attract significant tourism to the area. Fremont County contains 10 BNAs including: 5 middle income, 4 moderate income, and 1 tract reporting no income information. Huerfano County has a population of 6,000 contained in three BNAs including two moderate income and one low income. The estimated non-MSA median family income for Colorado is \$39,000 for 1998. Three independently chartered banks are located in Canon City and one is located in nearby Florence. The bank also faces competition from branches of other area banks.

Examiners made one contact in Canon City during this examination. The contact was a representative of a local community development organization. This contact stated local banks meet area credit needs. The contact was hopeful that local banks would get behind the proposed downtown rehabilitation project.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-deposit Ratio

Canon's overall lending level is reasonable given the bank's size, financial condition, and assessment area needs. The bank's loan-to-deposit (LTD) ratio has increased from 65% as of June 30, 1996, to 76% as of March 31, 1998, and averaged 72% during the eight-quarter period. Canon compares favorably to nine similarly situated banks serving the assessment area, which had average LTD ratios

ranging from 38% to 79% during the same time period. Only one of the nine similarly situated banks had a higher average LTD ratio than Canon. These banks were selected based on asset size, location, and similar business focus.

Lending in the Assessment Area

Canon originates a majority of its loans in both number and dollar volume within its assessment area. Examiners selected samples of residential real estate, commercial, and auto loans to evaluate the bank’s record of lending within its assessment area. Residential real estate and commercial loans are the two most significant loan types by dollar volume, representing 77% of the bank’s loan portfolio. Although less significant by dollar volume, auto loans are a significant product by number of loans originated. Auto loans represented 33% of originations during the first six months of 1998. The following table details our findings based on these samples.

LENDING WITHIN THE ASSESSMENT AREA				
Loan Type	Originations Sampled by Number	Percent Inside Area	Originations Sampled by \$	Percent Inside Area
Commercial*	18	94	3,038,000	65
Residential Real Estate**	35	97	1,665,000	97
Auto***	31	97	247,000	95
Total	84	96	4,950,000	80

*Sample represents approximately 17% of commercial loans originated by number between January 1, 1997, and June 30, 1998.

**Sample represents approximately 50% of residential real estate purchase loans originated by number between July 1, 1997, and June 30, 1998.

***Sample represents approximately 14% of auto loans originated by number between January 1, 1998, and June 30, 1998.

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

Canon’s lending patterns reflect good dispersion among individuals of different income levels and businesses of different sizes. Examiners sampled 34 residential real estate loans made within the bank’s assessment area between July 1, 1997, and June 30, 1998, and 30 auto loans made within the bank’s assessment area between January 1, 1998, and June 30, 1998. Each borrower’s income level was compared to the median family income applicable for the borrower’s address. The sample included loans from the Pueblo MSA, Colorado Springs MSA, and Colorado non-MSA counties all contained within the bank’s assessment area. See the following table.

LENDING TO BORROWERS OF DIFFERENT INCOMES			
Income Category	Percent of Residential Real Estate Loans Sampled by Number	Percent of Auto Loans Sampled by Number	Percent of Families in Assessment Area
Low	14	20	19
Moderate	24	23	19
Middle	24	20	23
Upper	38	37	39
Total	100	100	100

A substantial majority of the bank's commercial loans are to small businesses. We sampled 17 commercial loans made within the bank's assessment area between January 1, 1997, and June 30, 1998. As reflected in the following table, 94% of the loans sampled were made to businesses with revenues of less than \$500,000. U.S. Census Bureau data reflects approximately 84% of businesses in the assessment area have total revenues less than \$500,000, and 84% of businesses in the assessment area employ less than 10 people. The sample indicates the bank effectively serves the small business community.

LENDING TO BUSINESSES OF DIFFERENT SIZES	
Gross Annual Revenues	Percent of Loans Based on Sample
\$0 - \$100,000	47
\$100,001 - \$250,000	29
\$250,001 - \$500,000	18
> \$500,000	6
Total	100

> = Greater than.

Geographic Distribution of Loans

The bank's lending patterns reflect reasonable dispersion within the assessment area.

RESIDENTIAL REAL ESTATE AND AUTO LOAN GEOGRAPHIC DISTRIBUTION					
Income Designation of Tract	Percent of Real Estate Loans by Number	Percent of Real Estate Loans by \$	Percent of Auto Loans by Number	Percent of Auto Loans by \$	Percent of Tracts in Assessment Area
Low	0	0	0	0	4
Moderate	62	61	57	56	33
Middle	38	39	32	29	42
Upper	0	0	11	15	21
Total	100	100	100	100	100

Our sample of 34 residential real estate loans and 28 auto loans reflects concentrations in moderate- and middle-income geographies. Much of the bank's lending activity is still centered around Fremont County, which is the location of the bank's main office. Fremont County is comprised only of moderate and middle income areas. During the 12-month period ending June 30, 1998, loan originations at the Canon City offices represented 55% of total originations by dollar volume and 64% by number. The Canon City offices were followed by Pueblo (25%)(17%), Colorado City (13%)(16%), and Colorado Springs (7%)(3%), by dollar volume and number respectively. The bank's branches in Pueblo, Colorado City, and Colorado Springs are all relatively new. Pueblo and Colorado Springs are much larger markets than Canon City and the bank faces significant competition in these markets from local and regional financial institutions.

Response to Complaints

The bank has not received any written complaints regarding its CRA performance since the prior CRA examination.

Fair Lending Review

The bank is in substantial compliance with fair lending laws and regulations. Our fair lending review, conducted concurrently with this examination, found no unusual patterns or discriminatory lending practices.