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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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## **PUBLIC DISCLOSURE**

**July 20, 1998**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Mesa National Bank  
Charter Number 22182**

**131 North 6th Street  
Grand Junction, Colorado 81501**

**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 **Mesa National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of July 20, 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 “**Outstanding.**”

Mesa National Bank is serving the credit needs of its community very well through small business, mortgage, and other consumer lending. The bank's loan-to-deposit ratio is more than reasonable considering lending related activities, the bank's size, financial condition, and business focus. A substantial majority of the bank's loans are made within its assessment area. Lending activity reflects reasonable penetration to borrowers of different income levels and to businesses of different sizes, especially small size businesses, given the demographics of the assessment area. The bank has made significant and innovative strides to participate in community development through its partnership with nonprofit, affordable housing groups. The bank also provides excellent access and convenient services to all segments of the assessment areas.

## **DESCRIPTION OF INSTITUTION:**

Mesa National Bank (MNB) is a \$182 million full-service bank headquartered in downtown Grand Junction, Colorado. The bank has eight branches that are disbursed along the western slope of Colorado. The main office and four of the branches are located in and around neighboring communities of Grand Junction. The remaining four branches are located in Glenwood Springs, Rifle, Carbondale, and Telluride, Colorado. Three of the eight branch facilities are located in a local grocery store chain. The bank also operates five drive-up facilities. Three drive-up facilities are located in Grand Junction, and the remaining two are located in Glenwood Springs and Rifle. In addition, the bank operates and maintains 15 automated teller machines (ATMs). Six are deposit-taking ATMs located at full-service offices. The remaining ATMs are nondeposit taking which are in various locations of a local convenience store chain.

Sturm Banks of Colorado, Inc., a multi-bank holding company, owns 100% of MNB.

Since the last CRA examination on July 20, 1995, the bank has opened three branches. No branches have closed. On June 5, 1997, the bank opened a branch in Telluride, Colorado. On June 15, 1997, the bank opened a branch in Carbondale, Colorado. In June 1998, the bank opened the Eastgate branch in Grand Junction. The bank has also received approval to open two additional branches in neighboring communities of Grand Junction. The Coronado branch in Grand Junction is scheduled to open August 10, 1998, and will be located in near Clifton, Colorado, an adjacent community located east of Grand Junction. The Fruita branch is scheduled to open in late 1998 and will be located in Fruita, Colorado, a community located northwest of Grand Junction.

The bank provides a full array of credit products. The bank also offers a wide array of consumer type lending including mortgage loans, home improvement loans, and residential refinancing. The loan portfolio is comprised primarily of the following types of loans: construction and development (8%), 1- to 4-family residential secured (25%), commercial (43%), and consumer (24%).

There are no financial or legal impediments to the bank's ability to meet the credit needs of the assessment area.

## **DESCRIPTION OF ASSESSMENT AREA:**

**The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income areas.**

The bank has designated two assessment areas. The first assessment area surrounds the main office and encompasses Mesa County and Garfield County, adjacent to the north. Mesa County includes the Grand Junction Metropolitan Statistical Area (MSA), which contains 21 census tracts. Grand Junction is the county seat. Garfield County is a non-MSA area and contains six Block Numbering Areas (BNAs). Glenwood Springs is the county seat. The second assessment area encompasses San Miguel County, which is two counties south of Mesa County. Telluride is the county seat of San Miguel County and contains two BNAs.

The following table reflects the income levels of the assessment areas by MSA and non-BNAs. Based on the 1990 U.S. Census median family income, the bank's assessment areas are primarily middle- and upper-income census tracts or BNAs.

| <b>ASSESSMENT AREA CHARACTERISTICS<br/>MESA, GARFIELD, AND SAN MIGUEL COUNTIES</b> |  |                   |                                   |                   |                                     |                   |
|--|--|-------------------|-----------------------------------|-------------------|-------------------------------------|-------------------|
|  | <b>Mesa County<br/>(Census tracts)</b> |                   | <b>Garfield County<br/>(BNAs)</b> |                   | <b>San Miguel County<br/>(BNAs)</b> |                   |
| <b>Income level</b>  | <b>#</b>                               | <b>% of Total</b> | <b>#</b>                          | <b>% of Total</b> | <b>#</b>                            | <b>% of Total</b> |
| Low Income   | 0                                      | 0                 | 0                                 | 0                 | 0                                   | 0                 |
| Moderate Income  | 4                                      | 19                | 0                                 | 0                 | 0                                   | 0                 |
| Middle Income  | 13                                     | 62                | 3                                 | 50                | 1                                   | 50                |
| Upper Income   | 4                                      | 19                | 3                                 | 50                | 1                                   | 50                |
| <b>Total</b>   | <b>21</b>                              | <b>100</b>        | <b>6</b>                          | <b>100</b>        | <b>2</b>                            | <b>100</b>        |

The majority of families in the bank's assessment areas reside in middle- and upper-income census tracts or BNAs. As shown in the following table, 37%, 28%, and 29% of the total families in each of the individual areas are low- and moderate-income families living in middle and upper-income census tracts.

| <b>PERCENTAGE OF FAMILIES WITHIN ALL TRACTS BY INCOME LEVEL</b> |                            |                   |                          |                   |                            |                   |
|---|----------------------------|-------------------|--------------------------|-------------------|----------------------------|-------------------|
|   | <b>Grand Junction MSA*</b> |                   | <b>Garfield County**</b> |                   | <b>San Miguel County**</b> |                   |
| <b>Income Level</b>   | <b>#</b>                   | <b>% of Total</b> | <b>#</b>                 | <b>% of Total</b> | <b>#</b>                   | <b>% of Total</b> |
| Low Income  | 4,980                      | 19                | 1,130                    | 14                | 135                        | 16                |
| Moderate Income   | 4,616                      | 18                | 1,101                    | 14                | 110                        | 13                |
| Middle Income   | 5,805                      | 23                | 1,978                    | 25                | 182                        | 22                |
| Upper Income  | 10,184                     | 40                | 3,803                    | 47                | 407                        | 49                |
| <b>Total</b>  | <b>25,585</b>              | <b>100</b>        | <b>8,012</b>             | <b>100</b>        | <b>834</b>                 | <b>100</b>        |

\*The 1990 U.S. Census median family income for the Grand Junction MSA is \$27,637, and the 1997 updated Department of Housing and Urban Development (HUD) median family income is \$37,900.

\*\*The 1990 U.S. census non-MSA state-wide median family income for Garfield and San Miguel Counties is \$28,258. The 1997 updated HUD non-MSA median family income is \$39,000.

Overall competition in the assessment areas is high. There are numerous financial institutions in Grand Junction and the surrounding communities. Competition in the other local communities where the bank's branches are located is also high, with several branches of larger financial institutions in these areas.

Major industries in both assessment areas are retail/service oriented. Tourism and recreation are major contributing industries for both assessment areas. Retirees comprise a major portion of the population. The economic impact of agriculture is minimal and represents only 1% of the total economic base in Grand Junction. However, agriculture remains unique in the area of Grand Junction with numerous orchards for fruits and wine grapes. The major employers in Grand Junction are Mesa State College, St. Mary's Hospital and related medical services, city and county government, City Market, and School District 51. The economy in Garfield County is retail, service, and recreation oriented. The towns of Glenwood Springs and Telluride are destination ski resort communities with winter sports a major attraction in these areas. Population growth and real estate construction growth remains strong in both of the assessment areas.

During this CRA examination, we used two community contacts to assess current economic conditions and credit needs of the community. These contacts indicated that there is a need for affordable housing or multi-family type housing, especially in the Grand Junction area. In addition, the need for small business loans was also identified.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### ***Loan-to-Deposit Ratio***

**The bank's loan-to-deposit ratio is more than reasonable considering lending-related activities.**

The bank's average loan-to-deposit (LTD) ratio for the eight quarters beginning June 30, 1996, through March 31, 1998, is 61%. On a simple comparison basis, this compares favorably to five other similarly situated banks given their size, financial condition, and lending focus. The banks were selected based on asset size, location, and similar business focus. For the same time period, the eight-quarter average LTD ratios for similar banks ranged from 51% to 78%.

However, several factors affect the bank's LTD ratio. MNB originates a large volume of real estate mortgage loans and sells them in the secondary market. The LTD ratio does not incorporate this lending activity nor reflect the high level of activity.

The bank's commitment to residential mortgage lending is exemplary when compared to other lenders in its assessment area, but especially for an institution of its size. Based on 1996 aggregate peer Home Mortgage Disclosure Act (HMDA) data (the latest available), MNB ranked 8th among 152 reporting lenders with 266 loan originations and 7th with \$17.5 million in dollar volume. The institutions ahead of MNB were primarily much larger regional banks or large regional or national mortgage banking entities. In 1997, the bank originated a total of 211 mortgage loans totaling

\$21 million. And, year-to-date 1998, the bank has originated 170 mortgage loans totaling \$20 million. If the 1997 and 1998 mortgage loans had been retained, the bank's LTD ratio at March 31, 1998, would approximate 73%. This would rank it second in the comparison group behind another local bank approximately twice the asset size of MNB.

Another affect on the LTD ratio is the bank's legal lending limit, which restricts the amount loaned to any one borrower that a bank may retain. In 1997 and year-to-date 1998, MNB sold \$3.2 million and \$1.0 million, respectively, in loan participations relating to its lending limit. Further affecting the LTD is the recent branch expansion. Branch openings, especially the in-store type opened by MNB, typically generate a significantly larger volume of deposits than loans.

Also, in February 1998, deposits were increased by \$10 million due to a legal ruling that required certain funds be converted from repurchase agreements (a type of lending) to deposits. For the past two quarters, this ruling caused a decline of 5% in the LTD ratio.

***Lending in the Assessment Area***

**The bank originated a substantial majority of the number and dollar volume of loans within its assessment areas.**

The following table shows the bank originated 96% by number and 94% by dollar of its single-family residential loans within its assessment areas. We based our analysis using the bank's 1997 HMDA-Loan Activity Register (LAR). HMDA reportable loans include residential loans for home purchase, home improvement, and refinance purpose loans captured on the bank's HMDA-LAR. We verified the HMDA-LAR using a random sample of 25 loans.

| <b>1997 HMDA-LAR REPORTABLE LOANS<br/>LOANS ORIGINATED INSIDE AND OUTSIDE THE ASSESSMENT AREA</b> |                  |                    |                        |                     |
|---|------------------|--------------------|------------------------|---------------------|
|   | <b>Loans (#)</b> | <b>% Loans (#)</b> | <b>Loans \$(000's)</b> | <b>% Loans (\$)</b> |
| In Area   | 290              | 96                 | 22,995                 | 94                  |
| Out of Area   | 12               | 4                  | 1,464                  | 6                   |
| <b>Total</b>  | <b>302</b>       | <b>100</b>         | <b>24,459</b>          | <b>100</b>          |

We also reviewed the bank's HMDA-LAR for residential loans originated from January 1 through June 30, 1998. This review shows the bank originated 97% by number and 94% by dollar of residential loans within its assessment areas. The following table illustrates this conclusion.

| JANUARY 2 - JUNE 30, 1998, HMDA REPORTABLE LOANS<br>LOANS ORIGINATED INSIDE AND OUTSIDE THE ASSESSMENT AREA |           |             |                 |              |
|---|-----------|-------------|-----------------|--------------|
|   | Loans (#) | % Loans (#) | Loans \$(000's) | % Loans (\$) |
| In Area   | 57        | 97          | 2,239           | 94           |
| Out of Area   | 2         | 3           | 155             | 6            |
| <b>Total</b>  | 59        | 100         | 2,394           | 100          |

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

**Lending activity to borrowers of different income levels and businesses of different sizes is satisfactory.**

The following table reflects MNB's residential loan activity captured on its 1997 and June 30, 1998, HMDA-LAR. Borrower income level was defined by loan location and the percentage of 1990 U.S. Census median family income for its respective MSA or non-MSA. It is significant to note that the low- and moderate-income segment of the community typically has a more difficult time qualifying for home financing given the increases in area real estate prices. The table shows that 25% of HMDA reportable loans by number and 14% by dollar volume were made to low- and moderate-income borrowers. This is in line with the proportion of low- and moderate-income families in the assessment areas.

| HMDA REPORTABLE LOANS<br>ORIGINATED IN ASSESSMENT AREA BY BORROWER INCOME |  |                    |                      |                           |                       |
|---|--|--------------------|----------------------|---------------------------|-----------------------|
| Income Level*   | % of Families<br>in Assessment<br>Area** | SFR<br>Loan<br>(#) | % of<br>Loans<br>(#) | SFR<br>Loans<br>\$(000's) | % of<br>Loans<br>(\$) |
| Low < 50% of MSA Median   | 18                                       | 28                 | 9                    | 673                       | 3                     |
| Moderate 50% - 79% of MSA Median  | 17                                       | 51                 | 16                   | 2,355                     | 11                    |
| Middle 80% - 119% of MSA Median   | 23                                       | 87                 | 28                   | 5,250                     | 24                    |
| Upper > 120% of MSA Median  | 42                                       | 147                | 47                   | 13,294                    | 62                    |
| <b>Total</b>  | 100                                      | 313                | 100                  | 21,572                    | 100                   |

\*Income Category is based on the 1997 HUD median family income for MSA (\$37,900) and non-MSA (\$39,000) areas of Colorado.

\*\*Percent of families in the assessment area is based on the 1990 U.S. Census median family income for MSA (\$27,637) and non-MSA (\$28,258) areas of Colorado.

< = Less than.

> = More than.

The bank also demonstrates a very strong loan penetration to small businesses. This is reflected in the following table from a random sample of newly-originated commercial loans in 1998. This is also consistent with the business demographics of the assessment area. Seventy-seven percent of the businesses in both assessment areas have revenues less than \$1 million.

| <b>DISTRIBUTION OF BUSINESS LOANS BY REVENUE SIZE</b> |                      |                            |                            |                             |
|---|----------------------|----------------------------|----------------------------|-----------------------------|
| <b>Originated from<br/>01/01/98 to 06/30/98</b>       | <b>Loans<br/>(#)</b> | <b>% of Sample<br/>(#)</b> | <b>Loans<br/>\$(000's)</b> | <b>% of Sample<br/>(\$)</b> |
| Loans to Small Businesses<br>(Revenues < \$1,000,000) | 28                   | 93                         | 5,697                      | 99                          |
| Loans to Businesses<br>(Revenues > \$1,000,000)       | 2                    | 7                          | 40                         | 1                           |
| <b>Total</b>  | <b>30</b>            | <b>100</b>                 | <b>5,737</b>               | <b>100</b>                  |

< = Less than.  
> = More than.

***Geographic Distribution of Loans***

We did not perform an analysis of this area due to the composition of census tracts and BNAs in the bank’s assessment areas. As previously stated, the bank’s assessment areas have no low-income census tracts or BNAs. In addition, the assessment areas contain only four moderate-income census tracts, all located in the Grand Junction MSA. These four census tracts encompass downtown Grand Junction and industrial areas east and west of downtown Grand Junction. Only small residential areas exist in these tracts and the bank’s opportunity to make consumer and residential loans in these areas is minimal. As a result, an analysis of this performance criteria is not meaningful as most loans will naturally fall in middle- and upper-income census tracts or BNAs. The prior analysis of lending to borrowers of different incomes, showing an appropriate penetration, is a more significant and meaningful analysis.

***Community Development***

The bank initiated contact with a community action group to develop an innovative program to provide affordable housing to low- and moderate-income individuals. MNB is the co-founder of a cooperative partnership for affordable housing under the name of ComAct II. Although open to the entire lending community, MNB is the only local area financial institution to participate in this partnership. Subsequent to its founding, this nonprofit group for affordable housing in Mesa County was provided a \$375,000 grant and \$125,000 in matching funds by the Colorado Division of Housing. Eligibility of an applicant is based on income levels and is solely geared to assist low- and moderate-income individuals. To qualify for assistance, an applicant’s income must be at a level



of 60% to 75% of the median family income for Mesa County. MNB originates an FHA loan up to a maximum loan amount that debt-to-income ratios will allow. The nonprofit group provides gap financing assistance for down payment and closing costs in the form of a second deed of trust loan. The amount of assistance provided by the nonprofit group is based on the family's household income level compared to Mesa County median income. The percentage of the assistance provided by the nonprofit group ranges from 14% to 20%. Flexibility of repayment of the gap financing assistance loan allows principal amortization over 20 years, with interest only for the first three years at 3%. The purchaser contributes 1.5% of the purchase price as down payment and closing costs compared to 2% required by similar government-sponsored programs. This program started by MNB has considerably different flexibility than standard government-sponsored affordable housing programs.

Since its inception in 1995, the bank has made 34 loans for a total of \$2.1 million. In 1997, the bank originated 12 loans by number totaling \$690,929. This year the bank has originated an three additional loans for a total dollar volume of \$146,900. All loans made within this program are to low- to moderate-income individuals.

In addition, the bank provided a \$100,000 line of credit directly to the same nonprofit group for its lease-to-own program. This loan provides gap financing to the nonprofit group for purchase or construction of homes for low-income individuals. Qualified families rent the home for one year at a reduced rate. At the end of the one year, the family has an opportunity to purchase the home. The deposit and last month's rent apply towards closing costs. The nonprofit group sells the home at the purchase or construction price. The interest rate starts at 3% and is based on an increasing sliding scale reaching market rates in about eight years. Approximately 60 families have purchased homes through this program.

Another innovation is the bank's own Low-to-Moderate Loan Program. This loan program assists low- and moderate-income individuals to obtain financing for home purchase or any other consumer purpose. Qualifying debt-to-income ratios are higher than normal consumer loan programs. The primary purpose of this program is to assist individuals for home financing that may not otherwise qualify for financing in the secondary market. The bank has demonstrated a significant and ongoing commitment to this program. Since the program's inception in 1992, MNB has increased its committed funds from \$1.0 million to \$1.5 million. From inception, the bank has originated a total of 97 loans totaling \$2.3 million. In 1997, the bank originated nine loans for \$240,488. Year-to-date 1998, the bank originated six loans for \$187,491. All borrowers are low- and moderate-income individuals.

Another innovative lending program is the bank's Tier-2 Consumer Loan Program. This program has flexible qualification criteria for persons with faulty credit performance records. Through this program, the bank has offered credit to a segment of the public that might not have access to bank financing and services. Since its inception in late 1996, the bank has made loans to 58 individuals. The bank currently has 45 loans outstanding totaling \$498,550.

### ***Services***

As previously described in the *Description of the Assessment Area*, the bank has made several significant efforts to expand its service delivery systems. The bank has opened three new branches since the last examination. The bank's main office and one of its branches are located in two of four moderate-income areas (there are no low-income geographies in the assessment area). Also, three of MNB's branches are in large area supermarkets located on major thoroughfares. This provides excellent access to banking services to all income level individuals from all of the adjacent geographies. In addition, all branches are open from 10 a.m. to 7 p.m. to provide convenient banking services to the working public. Deposit-taking and nondeposit-taking ATM facilities are also located strategically throughout both of the bank's assessment areas. Further, two additional branches have been approved and are scheduled to open before year-end 1998. Both of these branches will be an in-store branch. One will be located in a moderate-income area.

### ***Response to Substantiated Complaints***

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

### ***Fair Lending Analysis***

We conducted a fair lending review concurrently with our review of CRA performance. A standard scope examination as set out by the OCC was used for that review. Our fair lending sample included a sample of 22 loan files, used to test for illegal discrimination based on the basis of race. The sample included 5 denied applications and 17 approvals of customers with similar incomes. Our fair lending review found no unusual patterns or discriminatory lending practices. The bank is in substantial compliance with fair lending laws and regulations.