

PUBLIC DISCLOSURE

July 8, 1996

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**THE RIO GRANDE COUNTY BANK
10-08-0330
908058**

DEL NORTE, COLORADO 81132

Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198

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 The Rio Grande County Bank, Del Norte, Colorado prepared by Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of July 8, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

The Rio Grande County Bank meets the standards to receive an outstanding rating. The loan-to-deposit ratio is more than reasonable given the institution's size, its financial condition, and the credit needs of the assessment area. A substantial majority of the bank's loans and other lending related activities are within its assessment area. The distribution of loans reflects a strong penetration among individuals of different income levels and businesses of different sizes. The geographic distribution shows an excellent dispersion of loans throughout the bank's assessment area.

The following table indicates the performance level of The Rio Grande County Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	The Rio Grande County Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	The bank has not received any complaints about its CRA performance.		

The banks performance under the CRA was last evaluated at the January 23, 1995 examination, at which time it was considered Satisfactory.

DESCRIPTION OF INSTITUTION

The Rio Grande County Bank has two full-service offices and three branches which are primarily depository facilities. The full-service offices include the main office located in the town of Del Norte and another office in Monta Vista, which is approximately 15 miles east of the main office. The other three branches are located in the towns of South Fork, Creede, and Center, Colorado. The Center location opened on June 17, 1996. These three branches accept loan applications which are forwarded to the Del Norte or Monta Vista office for approval. The bank does not own an automated teller machine (ATM); however, customers may be provided an ATM and/or debit card to use at other institutions' ATMs and merchants, respectively.

The bank offers a variety of loan products that appear appropriate for a rural bank of its size. Since this is primarily an agricultural area, the bank's major lending activity has been agriculture-related. Such loans comprised 33 percent of the bank's total loan portfolio as of the March 31, 1996 Report of Condition and Income (Call Report), while business lending comprised 24 percent, consumer loans 24 percent, and real estate-secured loans 19 percent.

The bank's financial condition and size allow it to meet the various credit needs of the local community. The bank had total assets of \$32,828,000, according to the March 31, 1996 Call Report. Since March 31, 1995, the bank has grown at a 30 percent rate on an annualized basis. This rate is predicted to continue in 1996 with the opening of the Center branch and the continued economic improvement in bank's assessment area.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank's assessment area includes five contiguous counties in the south center region of Colorado, which is the geographic area the bank has designated as its service area. The bank's assessment area encompasses all of Rio Grande, Alamosa, Mineral, and Saguache counties. Additionally, the assessment area includes two political subdivisions of Conejos County. The bank's assessment area does not arbitrarily exclude low- and moderate-income areas, taking into account the bank's size, structure and financial condition.

The population in the bank's assessment area, according to 1993 census update, is estimated at 37,600. From 1990 to 1993, the population increased by approximately 2,800 in the bank's assessment area. The largest populated counties include Rio Grande and Saguache where the population is 10,700 and 13,900, respectively. Community contacts indicated that approximately 27 percent of the population includes seasonal farm laborers, retired individuals and families living at poverty income levels. The median family income for the bank's assessment area is \$21,209. The median family income for the nonmetropolitan communities in the state of Colorado is \$28,159.

There are a total of 14 block numbering areas (BNAs) in the assessment area. Each BNA is identified according to the level of income as compared to the median family income of the bank's assessment area. Nine moderate-income and four middle-income BNAs were identified in the bank's assessment area. Additionally, one BNA identified as low-income is not populated. Although the bank's

assessment area is characterized as moderate and middle-income, low-income, and upper-income individuals also are represented in the population.

According to outside community contacts, the local economy has shown strong improvement in the last several years. The economy is based mainly on agriculture consisting primarily of potato and barley farming. Major employers include the school district, the hospital, the local and federal government. Also, the local retail and tourist related businesses employ many people. Many new small businesses have opened or expanded within the bank's assessment area, community contacts indicated that small businesses are able to obtain credit through local institutions. Furthermore, Rio Grande County Bank was specifically named as one of the most active small business lenders in the area.

Community contacts indicated that affordable housing has recently become the biggest need in the bank's assessment area because of the increasing population. The housing problem has intensified by a substantial increase in housing prices in the area created by supply and demand. Additionally, the rental housing market has become extremely tight.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's CRA performance is considered Outstanding, based on the following assessment of the bank's core performance criteria.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is considered more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's average net loan-to-deposit ratio based on the last four quarters ending March 31, 1996, is 75 percent. This is an increase from the previous four-quarter average ending March 31, 1995, of 66 percent. The bank's net loan-to-deposit ratio is significantly higher than six other banks, which service the same general area. These banks reported four-quarter average net loan-to-deposit ratios ranging from 49 percent to 71 percent, averaging 61 percent.

Lending in Assessment Area

To evaluate the bank's lending activity within its assessment area, a sample of loans was reviewed during the examination. Two types of loan products were sampled which consisted of 71 consumer-secured loans (excludes auto secured loans) and 46 small business loans. Based on this sample, a substantial majority of the bank's lending activity is within its assessment area and, therefore, meets the standards for

outstanding under this performance criteria. Of the consumer-secured loans reviewed, 96 percent, 98 percent by dollar volume, were within the bank's assessment area. For small business loans, the sample indicated that 99 percent of the loans, 99 percent by dollar volume, were within the bank's assessment area. Collectively, 95 percent of the loans reviewed, 99 percent by dollar volume, were within the bank's assessment area.

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

Given the demographics of the assessment area, the distribution of borrowers reflects a strong penetration among individuals of different income levels (particularly low- and moderate-income) and to small businesses.

According to 1990 U.S. Census data, there are 9,137 families in the bank's assessment area. These families are classified in the following income categories:

Income Category	Percentage of Families
Less than 50 percent of the area family median income	31
At least 50 percent but less than 80 percent of the area family median income	23
At least 80 percent and less than 120 percent of the area family median income	19
120 percent or more of the area family median income	27
TOTAL	100

The bank's lending to individuals in the low-income category is proportionately higher than the demographic composition of its assessment area. The sample indicated that of the consumer-secured loans within the bank's assessment area, 44 percent were to low-income individuals. The sample also reflected that 22 percent of consumer-secured loans within the assessment area were to moderate-income individuals. Overall, 66 percent of consumer-secured loans, 37 percent by dollar volume, were to low- or moderate-income individuals which are substantially higher than the demographic composition of 54 percent. The sample also showed that 13 percent of consumer secured loans within the assessment area, 20 percent by dollar volume, were to middle-income individuals and 21 percent, 43 percent by dollar volume, were to upper-income individuals.

Based on the loan sample reviewed, the bank originates all of its business loans to small businesses with annual revenues of less than \$1,000,000. As demonstrated in the table below, 91 percent of the loans within the sample were to small businesses with gross annual revenues less than \$100,000. This high volume of loans to small businesses reflects favorably on management and demonstrates the bank's willingness to help meet the community credit needs.

DISTRIBUTION OF SMALL BUSINESS LOANS BY BORROWER INCOME LEVELS	
Income Category	Percentage of Farm Loans
Gross annual revenues less than or equal to \$100,000	91
Gross annual revenues greater than \$100,000 and less than \$250,000	2
Gross annual revenues greater than \$250,000 and less than \$1,000,000	7
TOTAL	100

Geographic Distribution of Loans

The bank's geographic distribution of loans reflects an excellent dispersion throughout the bank's assessment area. As previously stated, the bank's assessment area consists of nine moderate-income BNAs and four middle-income BNAs. Rio Grande and Alamosa County each have two moderate and middle-income BNAs. The remaining five moderate-income BNAs are located in Mineral, Saguache and Conejos Counties. The moderate-income BNAs contains 68 percent of the number of families in the bank's assessment area. Of the consumer-secured loans originated within the bank's assessment area, 78 percent were to individuals located in the moderate-income BNA. For small business loans originated within the bank's assessment area, 74 percent (89 percent by dollar volume) were in the moderate-income BNAs. The bank's loans, as determined by the bank's self-analysis and verified by the examination loan sample, appear evenly distributed throughout the bank's assessment area.

Response to Complaints

The bank has not received complaints about its performance in meeting assessment area credit needs. Therefore, no assessment of the bank's performance in responding to complaints was made.

Compliance with Antidiscrimination Laws and Regulations

No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations were identified. Although no formal policies

or procedures have been established, interviews with lending personnel indicated knowledge regarding nondiscriminatory lending activities. Technical violations of the Equal Credit Opportunity Act's Regulation B were noted. However, these findings do not negatively impact the bank's overall CRA rating.