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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 each 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 the **Federal Reserve Bank of Kansas City – Denver Branch**, the institution's supervisory agency, as of January 26, 1998. 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 bank's rating was assessed using five core performance criteria for small banks. Conclusions for each performance criterion were based on data compiled from a statistically derived sample of files reviewed for each major product line. A description of how each major product line was determined is provided later in this public disclosure. In addition, bank management requested that an analysis of the bank's qualified investments and services be conducted.

The analysis showed that a substantial majority of the bank's loans were originated in the bank's assessment area. The analysis revealed an excellent distribution of loans to individuals of different income levels and to farms and businesses of different sizes. The geographic distribution of loans reflects an excellent dispersion throughout the bank's assessment area. Furthermore, the bank's loan-to-deposit ratio is considered more than reasonable. The response to complaints category was not rated as the bank has not received any complaints about its performance under the CRA. Finally, the bank's level of qualified investments and services enhanced the bank's overall rating.

The bank's performance under the CRA was last evaluated at the July 8, 1996 examination, at which time it was also assessed as Outstanding.

DESCRIPTION OF INSTITUTION

The Rio Grande County Bank is a full-service financial institution located in Del Norte, Colorado. Additionally, the bank has four full-service branches located in Monte Vista, South Fork, Creede and Center, Colorado. The Rio Grande County Bank offers a full range of credit products including agricultural, commercial, consumer, and real estate loans.

The Rio Grande County Bank reported \$43.5 million in total assets on its September 30, 1997 Report of Condition and Income (Call Report). The Call Report revealed the following loan concentrations: 36 percent agricultural loans, 34 percent commercial loans, 20 percent consumer loans, and 10 percent real estate-secured loans. The volume of loan originations for the previous six months resulted in the following concentrations: 71 percent consumer loans, 14 percent commercial purpose, 11 percent agricultural loans, and 4 percent real estate-secured loans.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The Rio Grande County Bank has designated Rio Grande County, Saguache County, Alamosa County, Mineral County, and a portion of Conejos County as its assessment area. The assessment area, which is the geographic area bank management has designated as its primary service area, consists of 14 block numbering areas (BNAs). Based upon 1990 Census Bureau information, the BNAs fall into the following income categories: one low-income BNA, nine moderate-income BNAs, and four middle-income BNAs. The low-income BNA consists of an unpopulated portion of the Continental Divide.

The bank's nonmetropolitan assessment area is located in the south central portion of Colorado. The assessment area contains the sparsely populated Rio Grande National Forest, Sangre De Cristo mountain range, the Great Sand Dunes, La Garita Wilderness Area, and portions of the Gunnison National Forest. According to 1990 Census Bureau data, the population of the bank's assessment area is comprised of 34,793 individuals. Bank management stated that population growth has been increasing at a steady rate. The bank's assessment area does not arbitrarily exclude any low- or moderate-income areas. Please refer to Attachment A for a map of the bank's assessment area.

The table on the following page shows the distribution of families in the bank's assessment area by income category. Low-income is defined as less than 50 percent, moderate-income is at least 50 percent and less than 80 percent, middle-income is at least 80 percent and less than 120 percent, and upper-income is 120 percent or more of the median family income of the nonmetropolitan areas in Colorado. The Census Bureau and the Department of Housing and Urban Development estimate the 1997 median family income for the nonmetropolitan areas of Colorado to be \$38,700.

DISTRIBUTION OF FAMILY INCOME IN THE BANK'S ASSESSMENT AREA BY INCOME LEVEL OF FAMILIES					
	Low-income	Moderate-income	Middle-income	Upper-income	Total
Number of Families	2,815	2,086	1,761	2,475	9,137
Percentage of Total Families	31%	23%	19%	27%	100%

According to all of the community contacts interviewed; one member of a local community development corporation, one member of a housing organization, and one local businessperson, the local economy is poor. For example, the number of families living below poverty level in the assessment is 21 percent, which is considerably higher than the percentage for nonmetropolitan areas of Colorado, which is 12 percent. However, community contacts stated that the economy is steady and improving. Community contacts identified affordable housing and flexible real estate lending requirements as current community development needs. The community contacts commended The Rio Grande County Bank for recently instituting a conventional long-term real estate loan product.

Major employers in the bank's assessment area include area governmental entities, local potato farms, Adams State College, and the secondary school system. Retail services, government employment, agriculture (both farming and ranching), construction, tourism, and forestry drive the area economy. The following table shows the distribution of industries by category based upon 1994 Census Bureau information.

DISTRIBUTION OF INDUSTRIES IN THE ASSESSMENT AREA BASED UPON 1994 CENSUS BUREAU INFORMATION							
	Private Sector	Government	Farming	Construction	Manufacturing	Mining	Total
Number of Establishments	11,682	3,817	2,222	924	618	130	19,393
Percentage of Establishments	60%	20%	11%	5%	3%	1%	100%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending in Assessment Area

This core performance criterion evaluates the concentration of loans originated by the bank in its assessment area. The loan sample showed that a substantial majority of loans are located in the bank's assessment area; therefore, the bank has exceeded satisfactory standards for this performance criterion.

The analysis was based on data compiled from a statistically-derived sample of loans. Discussions with bank management, a review of the bank's loan portfolio, and a review of the volume of loan originations were used to determine the bank's major product lines. The sample of loans was then selected from the bank's major product lines. Three loan types were sampled, including agricultural loans, commercial loans, and consumer loans.

The overall results reflected that 100 percent of the number and 100 percent of the dollar volume of the loans sampled were located in the bank's assessment area. Although the results are reflective of a large assessment area, 100 percent loan concentration is considered excellent.

Lending to Borrowers of Different Income Levels and to Farms and Businesses of Different Sizes

This core performance criterion evaluates the bank's loan originations among borrowers of different income levels and to farms and businesses of different sizes. The distribution of loans sampled showed an excellent penetration to individuals of different income levels, particularly low- and moderate-income individuals. Additionally, the distribution of loans sampled showed an excellent penetration to farms and businesses of different sizes, particularly small farms and small businesses. Therefore, the bank has exceeded satisfactory standards for this performance criterion.

Consumer Loans

The bank's origination of consumer loans to individuals of varying income levels is considered excellent. The analysis showed that 85 percent of the number and 69 percent of the dollar volume of consumer loans sampled were to low- and moderate-income borrowers. This result reflects excellent distribution when compared to the number of low- and moderate-income families in the bank's assessment area, which is estimated to be 54 percent.

Agricultural and Commercial Loans

The bank's lending to farms and businesses of different sizes is considered excellent. The loan sample revealed that 93 percent of agricultural and commercial loans were to farms or businesses with gross annual revenues of less than \$1 million. Additionally, 100 percent of the agricultural loans were to farms with gross annual revenues of less than \$500,000. Loans originated by the bank that are guaranteed by the Small Business Administration (SBA) further enhance the bank's lending performance to commercial borrowers. Since April 1997, the bank has originated three SBA loans totaling \$395,000.

The following table shows the percentage of loans to farms and businesses of different sizes. Loans are being made to farms and businesses of various sizes, including very small farms and businesses.

DISTRIBUTION OF COMMERCIAL LOANS SAMPLED IN THE ASSESSMENT AREA		
Gross Annual Revenue of Farm or Business	Percentage of agricultural loans	Percentage of commercial loans
Less than \$50,000	37%	31%
Greater than \$50,000 but less than \$100,000	21%	13%
Greater than \$100,000 but less than \$250,000	12%	28%
Greater than \$250,000 but less than \$500,000	30%	15%
Greater than \$500,000 but less than \$1 million	0%	3%
Greater than \$1 million	0%	10%
Total	100%	100%

Geographic Distribution of Loans

This core performance criterion focuses on the bank's level of loans throughout the assessment area. Additionally, this criterion focuses on the bank's penetration of loans among low-, moderate-, middle-, and upper-income geographies. Given the bank's assessment area demographics, the geographic distribution of loans reflects excellent penetration throughout the assessment area. Therefore, the bank has exceeded the satisfactory standards for this performance criterion.

As noted earlier, the bank's assessment area is comprised of one unpopulated low-income BNA, nine moderate-income BNAs, and four middle-income BNAs. Excluding the low-income geography, the sample of loans revealed originations in each BNA in the bank's assessment area.

Consumer Loans

The following table shows that the bank's origination of consumer loans to individuals residing in moderate-income geographies is considered excellent. The analysis showed that 96 percent of the number and 88 percent of the dollar volume of loans sampled, were to borrowers residing in the moderate-income geographies. This result reflects excellent distribution when compared to the number of families residing in moderate-income geographies, which is estimated to be 68 percent.

Agricultural and Commercial Loans

The table also shows that the distribution of agricultural and commercial loans in the moderate-income geographies is excellent. The analysis showed that 73 and 75 percent of the dollar volume of agricultural and commercial loans, respectively, were originated in moderate-income geographies. The results reflect excellent distribution when compared to the percentage of the population residing in the moderate-income BNAs, which is estimated to be 67 percent.

DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF BNA								
	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	#	\$	#	\$	#	\$	#	\$
Consumer Loans	NA	NA	68	285,110	3	37,716	NA	NA
Percent of Total	NA	NA	96%	88%	4%	12%	NA	NA
Agricultural Loans	NA	NA	25	1,073,523	14	394,340	NA	NA
Percent of Total	NA	NA	64%	73%	36%	27%	NA	NA
Commercial Loans	NA	NA	20	1,165,826	13	385,396	NA	NA
Percent of Total	NA	NA	61%	75%	39%	25%	NA	NA
Number of Families by BNA	0		6,241		2,896		NA	
Percentage of Families	0		68%		32%		NA	
Population by BNA	0		23,343		11,450		NA	
Percentage of Population	0		67%		33%		NA	

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The loan-to-deposit ratio is a quick barometer for gauging whether or not the bank is reinvesting deposits it receives from customers back into the community in the form of loans.

The bank's average net loan-to-deposit ratio for the last five quarters is 79 percent. This average ratio compares favorably to the average net loan-to-deposit ratio of similarly-sized banks in Colorado, for the same time period, which is 65 percent. Additionally, The Rio Grande County Bank's average ratio compares favorably to the ratio of similarly-sized banks in the assessment area, which is 68 percent. Finally, The Rio Grande County Bank's average ratio compares favorably to the national average for similarly-sized banks, which is 68 percent.

Further enhancing the loan-to-deposit ratio analysis is the bank's level of participation in the origination of real estate loans that are funded through the secondary market. Loans originated for purchase on the secondary market are only temporarily reflected in the bank's portfolio. Therefore, these loans are generally not reflected in the bank's loan-to-deposit ratio as the ratio reflects only those loans that the bank owns at a specific moment in time. Secondary market loan products offered by the bank include conventional financing, Federal Housing Authority (FHA), and Veterans Administration (VA) loans. Bank management recently began offering long-term conventional loans for purchase on the secondary market. Since April 1997, lending personnel have originated three real estate loans for the secondary market totaling \$204,945.

Response to Complaints

The final core performance criterion evaluates the bank's performance in responding to substantiated complaints about its performance in meeting assessment area credit needs. The bank has not received any complaints about its performance in meeting assessment area credit needs; therefore, this criterion was not rated.

Compliance with Antidiscrimination Laws and Regulations

Although violations of antidiscrimination laws and regulations were identified during the fair lending component of the compliance examination, they involved technical requirements of the law. Additionally, the examination report contains two advisory comments that address procedures that may potentially result in violations. The advisory comments do not affect the bank's overall CRA rating. Overall, adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

Investment Test

The bank's record of enhancing credit availability through qualified investments was evaluated at management's request and the results of the analysis enhanced the bank's overall rating. This performance criterion focuses on the bank's record of enhancing credit availability in its assessment area through its investment portfolio.

Investment and Grant Activity

This performance criterion focuses on the bank's investment record in enhancing credit availability in its assessment area. A qualified investment is defined as a lawful investment, deposit, membership or grant that has as its primary purpose community development. Community development encompasses affordable housing for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development; or activities that revitalize or stabilize low- and moderate-income geographies.

The institution's investment portfolio contained \$62,500 in qualified investments. These investments involved the bank's participation in local Enterprise Zone programs that were targeted to revitalize the agriculture and business industries in the moderate-income BNAs of the bank's assessment area. The purpose of the grants was to promote agricultural and business development by contributing to the Potato Administration Committee and the Rio Grande Hospital. The Rio Grande Hospital was near financial ruin and was targeted by the Colorado Department of Revenue's Enterprise Zone for economic development to save numerous jobs.

Responsiveness to Credit and Community Development Needs

Community contacts stated that the bank actively participates in any local bond issues that become available. The community contacts also stated that the bank has always been responsive to area concerns with contributions to or involvement in local organizations.

Service Test

The bank's record of enhancing credit availability through qualified services was evaluated at management's request and the results of the analysis enhanced the bank's overall rating. This performance criterion focuses on the bank's record of providing branches, automated teller machines (ATMs), loan production offices, and/or other delivery systems that enhance credit availability in its assessment area.

Accessibility of Delivery Systems

As 80 percent of the bank's offices are located in moderate-income geographies, delivery systems are accessible to essentially all portions of the institution's assessment area. Although the bank does not own or operate any ATMs, the bank offers an ATM/debit card to use at nonowned ATMs and/or local merchants.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Services and business hours do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income areas or individuals. The bank's hours are generally from 8:30 a.m. to 5:00 p.m., Monday through Thursday and 8:30 a.m. to 6:00 p.m. on Friday. Additionally, the bank is open 12:30 p.m. to 5:00 p.m. on Saturdays during the peak of agricultural seasons. Finally, appointments with bank personnel during nonbusiness hours are also available.

Community Development Services

The institution provides an adequate level of community development services. Management's financial expertise is provided to an organization involved in revitalizing business development in the bank's assessment area. The bank's president is a board member for the San Luis Valley Revolving Loan Fund. The program offers a secondary source of funds for new businesses and for business expansions. Applications are evaluated on a case-by-case basis. Business requests that will increase employment opportunities are favored.

As previously mentioned, bank management originates business start-up loans under the SBA loan programs. Lending personnel have originated three loans since April 1997 under the SBA guaranteed loan program totaling \$395,000.

