

PUBLIC DISCLOSURE

October 21, 1996

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

ARK VALLEY INDEPENDENT BANK
446653
10-08-0998

405 COLORADO AVENUE
LA JUNTA, COLORADO 81050

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 Ark Valley Independent Bank, La Junta, Colorado, prepared by the Federal Reserve Bank of Kansas City, Denver Branch, the institution's supervisory agency, as of October 21, 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 bank's performance with the Community Reinvestment Act is outstanding. The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. Additionally, a substantial majority of loans are in the bank's assessment area, and the distribution of loans reflects excellent dispersion among individuals of different income levels. The geographic distribution of loans across the assessment area by different income levels reflects an excellent dispersion. Also, the bank provides other services that enhance credit availability in the assessment area.

The following table indicates the performance level of Ark Valley Independent Bank with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | ARK VALLEY INDEPENDENT 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 | X | | |
| Geographic Distribution of Loans | X | | |
| Response to Complaints | The bank has not received any complaints about its CRA performance. | | |
| Investments | Unrated - the bank does not have any Aqualified investments.@ | | |
| Services | X | | |

DESCRIPTION OF INSTITUTION

Ark Valley Independent Bank is located in the town of La Junta, Colorado, at 405 Colorado Avenue. The bank operates out of one location and does not own any branches. The bank owns two automated teller machines (ATMs), one located at the bank and one located at a local convenience store.

The bank has the ability to meet the credit needs of its defined assessment area based on the bank's size, financial condition, and resources. The types of credit products offered by the bank, as noted in the bank's public file, include consumer loans, real estate loans, and loans to finance agriculture and small businesses.

The bank reported total assets of \$20,577,000 in its September 30, 1996 Report of Condition and Income (Call Report). The table on the following page reflects the distribution of the bank's loan portfolio as of that date.

| DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO | | |
|--|---|--|
| <i>Type of Loan</i> | <i>\$ Amount (In Thousands)</i> | <i>Percentage of Total Loans</i> |
| Loans Secured by Real Estate: | | |
| All other loans secured by 1- to 4-family residential properties | \$ 3,813 | 34 |
| Secured by nonresidential properties | 2,994 | 27 |
| Construction and land development | 687 | 6 |
| Consumer Installment Loans | 1,407 | 12 |
| Commercial Loans | 1,303 | 12 |
| Consumer Open-end Loans | 50 | <1 |
| Other | 935 | 8 |
| Total | \$11,189 | 100 |

The bank's performance under CRA was last evaluated during the November 6, 1995 examination, and a Satisfactory CRA rating was assessed at that time.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area, which is the geographic area the bank has designated as its primary service area, is defined as Otero County. Otero County is an agricultural and industrial community located in rural southeast Colorado.

The bank's assessment area includes the towns of La Junta, Fowler, Rocky Ford, Manzanola, Swink, and Cheraw. The population of Otero County is 20,185. La Junta is the largest town in the assessment area with a population of 7,637 (per 1990 census data) or 38 percent of the county's population. The bank's assessment area does not exclude any low- and moderate-income areas.

There are a total of seven block numbering areas (BNAs) in the assessment area.

Each BNA is identified according to the level of income as compared to median family income. Median family income is based on the state of Colorado's nonmetropolitan statistical area median family income figures. The median family income for the bank's assessment area is \$22,243. The bank's assessment area does not include any upper-income BNAs. The table on the following page shows the distribution of those BNAs among the four income categories.

| INCOME CLASSIFICATION OF BNAs IN THE ASSESSMENT AREA | | | | |
|---|-------------------------|------------------------------|----------------------------|---------------------------|
| <i>Income Category</i> | <i>Low</i> ¹ | <i>Moderate</i> ² | <i>Middle</i> ³ | <i>Upper</i> ⁴ |
| Number of BNAs | 1 | 3 | 3 | NA |
| Percentage of Total BNAs | 14% | 43% | 43% | NA |

- 1 Less than 50 percent of the nonmetropolitan statistical area (MSA) median family income
- 2 Between 50 and 80 percent of the nonMSA median family income
- 3 Between 80 and 120 percent of the nonMSA median family income
- 4 Greater than 120 percent of the nonMSA median family income

The area's economy is relatively strong and stable. The leading source of income in the area is from farming and ranching. Rocky Ford is known in the state for the cantaloupes it produces. Onions and cattle are other important agricultural products from this region. The economy is also heavily reliant on transportation and manufacturing. Major employers in the area include Dean Pickle and Specialty, Burlington Northern Santa Fe Railway Company, Lewis Bolt and Nut, DeBourgh Manufacturing, and the Ark Valley Regional Medical Center. Community contacts indicated that unemployment is dropping and currently is estimated at less than 4 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the CRA is outstanding. The bank's performance under each of the five core small institution assessment criteria and one optional criterion is summarized on the following pages.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio, which contrasts the level of net loans to deposits, is reasonable given the bank's size, financial condition, assessment area credit needs, and competition. The bank's average net loan-to-deposit ratio for the last

four quarters, based on Call Report information ending June 30, 1996, is 52 percent. The average net loan-to-deposit ratio for similarly sized competing banks within the assessment area is 58 percent. The bank's loan-to-deposit ratio is low in comparison to other banks in the assessment area; however, it is reasonable given that the area is saturated with financial institutions. Although the assessment area is sparsely populated, there are four independent banks, a branch of a regional bank, one credit union, and a Farm Credit Bureau office located in the town of La Junta. There are another five financial institutions located in Rocky Ford and two in Fowler.

A review of community development loans was undertaken to determine if they would enhance the bank's low loan-to-deposit ratio. A community development loan is one that has community development as its primary purpose. The term community development refers to:

- C Affordable housing for low- or moderate- income individuals.
- C Community services that target low- or moderate-income individuals.
- C Activities that promote economic development by financing small businesses or farms.
- C Activities that revitalize or stabilize low- or moderate-income geographies.

One loan relationship which met the definition of a community development loan was identified. Specifically, management is actively involved in and provides financing for Tri-County Housing Inc., for the benefit of Tri-County Housing Rehabilitation Program in connection with the Federal Home Loan Program. The purpose of this program is to provide funds to low-income homeowners for home improvement purposes. The bank has originated six loans under this program totaling \$27,000.

Lending in Assessment Area

A substantial majority of loans are in the bank's assessment area. This conclusion is based on a sample of loans reviewed during the examination. Two loan types were sampled, including consumer-secured and unsecured loans as they were determined to be the bank's major product lines.

Overall, 86 percent of the total number and 77 percent of the total dollar volume of loans sampled are in the bank's assessment area. As can be noted in the following table, the concentration of both loan types sampled is high at 78 percent of the number of consumer-secured loans and exceptionally high at 95 percent of the number of consumer-unsecured loans in the assessment area.

| DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA | | | | | | | | | |
|--|---------------|---|-----------|---|----------------|---|-----------|---|--|
| <i>Loan Type</i> | <i>Inside</i> | | | | <i>Outside</i> | | | | |
| | Number | % | Amount of | % | Number | % | Amount of | % | |
| | | | | | | | | | |

| | of Loans | | Loans | | of Loans | | Loans | |
|---------------------------|-------------|----|---------|----|-------------|----|--------|----|
| Consumer-Secured | 45 | 78 | 120,784 | 72 | 13 | 22 | 47,517 | 28 |
| Consumer-Unsecured | 57 | 95 | 61,457 | 93 | 3 | 5 | 4,579 | 7 |

Lending to Borrowers of Different Incomes

The distribution of borrowers, given the demographics of the assessment area, reflects an excellent penetration among individuals of different income levels particularly low- and moderate-income individuals.

Overall, the distribution of the total number of the two loan types sampled to low- and moderate-income level borrowers is significant at 62 percent and 22 percent, respectively. Such percentages are particularly noteworthy considering the income composition of the assessment area is only 31 percent low-income and 20 percent moderate-income. The following table shows the breakdown of loan type to borrowers within the different income levels.

| DISTRIBUTION OF CONSUMER LOANS SAMPLED IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER | | | | | | | | |
|--|-------------------------|----------|---------------|----------|---------------------------|----------|---------------|----------|
| <i>Income Level</i> | <i>Consumer-Secured</i> | | | | <i>Consumer-unsecured</i> | | | |
| | <i>Number</i> | <i>%</i> | <i>Dollar</i> | <i>%</i> | <i>Number</i> | <i>%</i> | <i>Dollar</i> | <i>%</i> |
| Low ¹ | 24 | 53 | 48,853 | 40 | 39 | 68 | 37,830 | 62 |
| Moderate ² | 13 | 29 | 36,516 | 30 | 9 | 16 | 8,452 | 14 |
| Middle ³ | 4 | 9 | 16,124 | 13 | 4 | 7 | 8,684 | 14 |
| Upper ⁴ | 4 | 9 | 19,291 | 16 | 5 | 9 | 6,491 | 11 |

1 Less than 50 percent of the nonmetropolitan statistical area (MSA) median family income

2 Between 50 and 80 percent of the nonMSA median family income

3 Between 80 and 120 percent of the nonMSA median family income

4 Greater than 120 percent of the nonMSA median family income

Geographic Distribution of Loans

The bank's overall geographic distribution of loans reflects an excellent dispersion throughout the bank's assessment area given the bank's location, size, and competition. As mentioned previously, the assessment area includes one low-income BNA, three moderate-income BNAs, and three middle-income BNAs.

As demonstrated in the table on the following page, the distribution of loans is concentrated in moderate-income BNAs. The analysis showed that 51 percent of the number of consumer-secured loans and 67 percent of number of the consumer-unsecured loans in the assessment area were in moderate-income tracts. This penetration is particularly noteworthy in comparison to population demographic information which shows that only 40 percent of the families reside in those BNAs.

The penetration in the low-income BNA is only 7 percent for secured loans and 9 percent for unsecured loans; however, this is understandable given the bank's location, and competition. The only low-income BNA in the bank's assessment area encompasses the towns of Rocky Ford and Fowler. There are five financial institutions in this area. This is remarkable considering the fact that there are only 805 families residing in this BNA.

| DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF BLOCK NUMBERING AREAS | | | | | | | | |
|---|------------|-------|-----------------|--------|---------------|----------|--------------|----|
| Loan Type | Low-Income | | Moderate-Income | | Middle-Income | | Upper-Income | |
| | # | \$ | # | \$ | # | \$ | # | \$ |
| Consumer-Secured | 3 | 9,347 | 23 | 53,602 | 19 | \$57,835 | 0 | 0 |
| <i>Percent of Total</i> | 7% | 8% | 51% | 44% | 42% | 48% | 0% | 0% |
| Consumer-Unsecured | 5 | 4,269 | 38 | 44,274 | 14 | 12,914 | 0 | 0 |
| <i>Percent of Total</i> | 9% | 7% | 67% | 72% | 24% | 21% | 0% | 0% |
| Number of BNAs in Assessment Area | 1 | | 3 | | 3 | | 0 | |
| Percentage of BNAs | 14% | | 43% | | 43% | | 0% | |

| DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF BLOCK NUMBERING AREAS | | | | |
|---|-----|-------|-------|----|
| Number of Families by BNA | 805 | 2,214 | 2,482 | 0 |
| <i>Percentage of Families by BNA</i> | 15% | 40% | 45% | 0% |
| Owner Occupied Households by BNA | 682 | 2,079 | 2,319 | 0 |
| <i>Percentage of Households by BNA</i> | 13% | 41% | 46% | 0% |

Response to Complaints

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

Community Development Services

A review of community development services was conducted to determine if they enhance the bank's overall rating. A community development service is defined as a service that has as its primary purpose of community development and is related to the provision of financial services. The term community development was defined previously.

The bank's president is on the board of and provides financial consulting services and advisory support to La Junta Capital, Inc., on behalf of Ark Valley Independent Bank. La Junta Capital, Inc., is a nonprofit corporation administering a revolving loan fund which makes loans to small business in order to foster small business development. This community development service enhances the bank's overall CRA performance rating.

Compliance with Antidiscrimination Laws and Regulations

There were no substantive violations of the antidiscrimination laws and regulations identified during the fair lending component of the compliance examination.