PUBLIC DISCLOSURE

MARCH 06, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CASTLE ROCK BANK
RSSD# 896856

501 WILCOX STREET
CASTLE ROCK, COLORADO 80104

Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198

NOTE: This document is an evaluation of this 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. 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.

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INSTITUTION'S COMMUNTIY REINVESTMENT ACT RATING: *This institution is rated **Satisfactory.***

Castle Rock Bank (the bank) has a satisfactory record of meeting the credit needs of its assessment area (AA). The bank's average net loan-to-deposit (NLTD) ratio reflects a reasonable effort to extend credit considering the characteristics of the bank, the performance of similarly situated financial institutions, and the credit needs of the community it serves. A substantial majority of the bank's lending activity occurred inside its AA, and the bank's distribution of loans by income level of geographies reflects a reasonable dispersion. Lastly, the bank's lending reflects reasonable penetration among borrowers of different income levels and to businesses of different revenue sizes.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act (CRA) performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions*. Four of the five criteria used in evaluating small bank lending performance were relevant to this review and are as follows:

- NLTD Ratio
- Lending Inside the AA
- Distribution of Loans by Income Level of Geographies
- Lending to Borrowers of Different Income Levels and to Businesses of Different Revenue Sizes

The fifth criterion, the bank's responsiveness to complaints under the CRA, was not evaluated because the bank has not received any CRA-related complaints since the previous examination.

Conclusions regarding the four performance criteria were based on data compiled from the bank's major product lines: commercial and consumer open-end home equity loans. The major product lines were determined through discussions with bank management, a review of the September 30, 2016 Reports of Condition and Income (Call Report), and a review of the number of outstanding loan originations since the previous CRA evaluation conducted on February 11, 2013.

The CRA evaluation analyzed a statistically derived sample of 38 consumer open-end home equity loans from a universe of 47 loans and 70 small business loans from a universe of 108 loans originated between December 18, 2012 and October 31, 2016. As defined under the CRA, small business loans included those with loan amounts of $1 million (MM) or less. Greater weight was placed on the bank's small business lending performance given the bank's strategic focus.

For evaluative purposes, the bank's consumer home equity lending was compared to local demographic data using the U.S. Census 2006-2010 five-year estimated American Community Survey (2010 ACS) data, and 2016 FFIEC's Census data, while the bank's small business lending was compared to 2016 Dun and Bradstreet (D&B) data. In addition, both loan products were cumulatively evaluated rather than by individual year in the context of comparative demographic data due to the overall low volume of originations; demographic data also did not vary significantly from 2012 to 2016. The geographic distribution analysis was based on the bank's lending among the various geographies of the AA, with emphasis on lending in low- and moderate-income (LMI) census tracts. Given that the AA does not contain any LMI census tracts, limited weight was placed on this analysis. Geographies were classified based on the 2016 FFIEC's Census tract definitions pursuant to 2010 ACS data and 2013 Office of Management and Budget Metropolitan Statistical Area (MSA) designations. The borrower distribution analysis was based on the bank's lending to borrowers of different income categories and to small businesses with gross annual revenues of $1MM or less. For the evaluation of borrower characteristics, borrower income levels were calculated based on the 2016 FFIEC's Estimated Median Family Income Report. The evaluation of the bank's performance focused on the number of loans originated for each product as well as the dollar volume of those originations.

An executive of a local economic development council was interviewed to augment the evaluation, ascertain local market conditions, determine specific credit needs of the AA, and determine the area banks' responsiveness in helping to meet such needs.

DESCRIPTION OF INSTITUTION

The bank is a $147.9MM institution wholly owned by Castle Rock Bank Holding Company. Both institutions are headquartered in Castle Rock, Colorado, which is approximately 30 miles south of Denver and located in Douglas County. The bank also operates one branch office in Castle Pines, Colorado, approximately seven miles north of Castle Rock. Each office is a full-service location offering the same deposit and loan products and services. Two cash-dispensing only automated teller machines are present at each location.

The bank reported total loans of $71.0MM, and total deposits of $131.0MM on its September 30, 2016 Call Report. According to the Federal Deposit Insurance Corporation (FDIC) Market Share Report as of June 30, 2016, the bank has 2.5 percent of the market share in Douglas County and Elbert County, ranking 9th among 19 FDIC-insured institutions with locations in these counties. While the bank recognizes commercial lending as its major focus, it offers a variety of credit and deposit products to serve its customer base. Table 1 illustrates the distribution of the bank's loan portfolio by product type as of September 30, 2016.

TABLE 1 CASTLE ROCK BANK LOAN PORTFOLIO AS OF SEPTEMBER 30, 2016		
Loan Type	**Amount $(000)**	**Percent of Total**
Commercial	42,249	59.6
Residential Real Estate	24,377	34.4
Agricultural	3,603	5.1
Consumer	763	1.1
Gross Loans	**70,992**	**100.0**
(Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)		

Based on the bank's asset size, product offerings, and financial condition, it has the ability to meet the credit needs of its AA. No financial or legal impediments exist that would impact the bank's ability to meet the credit needs of its AA. The bank received a Satisfactory rating at its previous CRA evaluation conducted by the Federal Reserve Bank of Kansas City on February 11, 2013.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's delineated AA is contiguous and includes all of Douglas County and Elbert County in Colorado, which are two of ten counties that comprise the Denver-Aurora-Lakewood MSA (Denver MSA). The AA is comprised of 17 middle- and 51 upper-income census tracts. The bank's main office is located in a middle-income census tract and the branch office is located in an upper-income census tract. No changes have been made to the bank's AA delineation since the previous evaluation.

Population Characteristics

According to 2016 FFIEC's Census data, the AA population is 308,551. Approximately 92.5 percent of the AA population is located in Douglas County. Within Douglas County, the population has increased by 12.9 percent since the 2010 Census. Census information also indicated that the AA population accounts for 12.1 percent of the total Denver MSA population. As a whole, the AA population has high levels of educational attainment; 55.9 percent of individuals aged 25 or older have a bachelor's degree or higher.

Housing Characteristics

The AA contains a total of 106,860 households; 83,704 or 78.3 percent of the total households include households that are families per the FFIEC's Census data. A community representative indicated that there is a major need for affordable housing within Douglas County. The county is experiencing a shortage of qualified trade and retail workers in the AA, which is partly attributable to the lack of affordable housing for these workers. The AA's median age of housing stock of 16 years is lower than the Denver MSA average of 31 years. The $339,261 median housing value of the AA exceeds the Denver MSA average of $246,226.

Similarly, the AA's affordability ratio[1] at 28.6 percent exceeds the statewide and Denver MSA at 23.9 percent and 24.4 percent, respectively. The AA contains a lower percentage of rental units at 16.0 percent when compared to the statewide and Denver MSA averages of 28.6 percent and 30.9 percent, respectively. Consequently, the median gross rent values in the AA are significantly higher at $1,168 per month compared to an average $871 for the Denver MSA. Rising home values and rental rates in the AA have made affordable housing less accessible to low-income and retired individuals according to a community representative.

Income Characteristics

The AA is considered to be affluent relative to the rest of the state. The $97,002 median household income in the AA is 71.8 percent higher than statewide Colorado. A community representative noted that the high median incomes in the AA have resulted in high levels of disposable income and increased availability of lending capital. Approximately 17.7 percent of households are considered low- (8.1 percent) and moderate-income (9.6 percent), which is significantly below the statewide average of LMI households at 40.2 percent. In addition, 3.0 percent of the AA households are below the poverty level, which is lower than statewide and the Denver MSA at 11.6 percent and 11.0 percent, respectively.

Economic and Employment Characteristics

A significant portion of the AA population commutes to Denver for employment opportunities in high-skill industries such as technology, healthcare, and business. However, a community representative indicated that primary employment within Douglas County is gradually increasing due to business incentives offered by local municipalities and the state of Colorado. The major AA employers include the county and local city governments, the local school district, Master Magnetics, Inc.; mywedding.com; Baxa Corp; HealthOne and Centura Health (Medical); Avaya, Inc., DISH, Liberty Media Corporation, and Sprint (Telecomm); CH2M Hill, Inc., and TeleTech (Professional/Technical Services). Given the income characteristics of the AA and the prevalence of retail goods for sale, a community representative noted the need for retail and trade workers within the AA. Based on 2016 preliminary data from the U.S. Bureau of Labor Statistics, the unemployment rates in Douglas County and Elbert County are 2.2 percent and 2.1 percent, respectively, lower than the Denver MSA at 2.6 percent.

Table 2 summarizes additional income-related demographics and economic characteristics of the bank's AA based on 2016 FFIEC's Census data. Demographic data related to LMI geographies was omitted as the AA does not have any LMI tracts.

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[1] The housing affordability ratio is calculated by dividing the median household income by the median housing value. A lower ratio reflects less affordable housing.

TABLE 2
CASTLE ROCK BANK 2016 ASSESSMENT AREA DEMOGRAPHICS

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	6,177	7.4
Moderate	0	0.0	0	0.0	0	0.0	8,926	10.7
Middle	17	25.0	16,574	19.8	431	2.6	16,508	19.7
Upper	51	75.0	67,130	80.2	1,199	1.8	52,093	62.2
Total AA	**68**	**100.0**	**83,704**	**100.0**	**1,630**	**1.9**	**83,704**	**100.0**
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Middle	25,716	17,524	19.7	68.1	6,652	25.9	1,540	6.0
Upper	86,357	71,402	80.3	82.7	11,282	13.1	3,673	4.3
Total AA	**112,073**	**88,926**	**100.0**	**79.3**	**17,934**	**16.0**	**5,213**	**4.7**
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = $1 Million		Over $1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Middle	5,574	24.7	5,103	23.9	419	41.3	52	23.9
Upper	17,011	75.3	16,250	76.1	595	58.7	166	76.1
Total AA	**22,585**	**100.0**	**21,353**	**100.0**	**1,014**	**100.0**	**218**	**100.0**
Percentage of Total Businesses:				**94.5**		**4.5**		**1.0**

Based on 2010 ACS five-year estimate data, 2016 FFIEC's Census tract designations, and 2016 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall record of meeting the credit needs of its AA through its lending activities is satisfactory. The bank's NLTD ratio reflects a reasonable effort to extend credit. A substantial majority of the bank's loans are made within its delineated AA. Lending reflects reasonable penetration throughout the AA based on income level of geographies. Furthermore, a reasonable distribution of loans was originated to borrowers of different income levels and businesses of different revenue sizes.

Net Loan-to-Deposit Ratio:

This performance criterion utilizes the bank's average NLTD ratio to evaluate the reasonableness of lending in light of performance context information regarding the bank's capacity to lend, availability of lending opportunities, and demographic and economic factors present in the AA.

Overall, the bank's NLTD ratio reflects a reasonable effort to extend credit based on its size, financial condition, credit needs of the AA, and in context of the NLTD ratios of other local similarly situated banks. The bank's NLTD ratio averaged 54.9 percent over the most recent 15 quarters since the prior evaluation. The bank's 15-quarter range was comparable to six similarly situated banks whose average NLTD ratios ranged from 55.1 percent to 83.8 percent over the same time period. Three of the six institutions had NLTD ratios ranging from 55.1 percent to 68.6 percent, which were more closely aligned with the bank's performance.

Assessment Area Concentration:

This core performance criterion evaluates the bank's lending inside its delineated AA. The evaluation analyzes both the number and dollar volume of originations. Table 3 illustrates that a substantial majority of the bank's consumer home equity and small business loans were originated within its delineated AA at 91.7 percent by number and 80.7 percent by dollar. This indicates a satisfactory effort by the bank to serve the credit needs of the community in which it operates. The remaining analysis considers only those loans originated inside the AA.

TABLE 3
LENDING INSIDE AND OUTSIDE THE BANK'S ASSESSMENT AREA

Bank Loans	Inside				Outside			
	#	$(000)	#%	$%	#	$(000)	#%	$%
Home Equity Loans	35	3,269	92.1	84.3	3	610	7.9	15.7
Small Business Loans	64	12,065	91.4	79.8	6	3,049	8.6	20.2
Total Loans	**99**	**15,334**	**91.7**	**80.7**	**9**	**3,659**	**8.3**	**19.3**

Distribution by Income Level of Geographies:

This performance criterion evaluates the bank's distribution of lending within its AA by income levels of census tracts. Performance is evaluated by comparing the percentage of total loans made in each census tract income category to the respective percentage of households and businesses within each census tract income category. Overall, the bank's geographic distribution of loans is reasonable considering the bank's locations and AA demographics. The bank's AA does not contain any LMI census tracts.

TABLE 4 DISTRIBUTION BY INCOME LEVELS OF GEOGRAPHIES					
Census Tract Income Level	Home Equity Loans				% of Owner-Occupied Units[1]
	#	$(000)	#%	$%	
Middle	5	425	14.3	13.0	19.7
Upper	30	2,844	85.7	87.0	80.3
Census Tract Income Level	Small Business Loans				% of Businesses[2]
	#	$(000)	#%	$%	
Middle	25	5,311	39.1	44.0	24.7
Upper	39	6,754	60.9	56.0	75.3

[1] Based on 2010 ACS five-year estimate data and 2016 FFIEC's Census tract designations.
[2] Based on 2016 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Home Equity Loans

As shown in Table 4, consumer home equity lending reflects reasonable dispersion throughout the AA. Consumer home equity lending in middle-income census tracts at 14.3 percent by number (13.0 percent by dollar) was below the percentage of owner-occupied units at 19.7 percent. The bank's performance in upper-income census tracts exceeded the demographic figure at 85.7 percent by number and 87.0 percent by dollar, compared to 80.3 percent of owner-occupied units located in these census tracts. The bank's performance is reasonable considering the AA middle-income tracts contain higher percentages of rental and vacant units at 31.0 percent as well as multifamily housing at 22.2 percent, when compared to the upper-income areas.

Small Business Loans

Small business lending reflects a reasonable dispersion throughout the AA as shown in Table 4. The bank's performance in middle-income census tracts at 39.1 percent by number (44.0 percent by dollar) exceeded the percentage of businesses located in these census tracts at 24.7 percent by number. Lending in upper-income census tracts at 60.9 percent by number (56.0 percent by dollar) was below the percentage of businesses at 75.3 percent.

Distribution by Borrower Income and Revenue Size of Businesses and Farms:

This criterion evaluates the bank's lending to borrowers of different income levels, particularly LMI individuals. Additionally, the analysis evaluates the bank's level of lending to businesses with gross annual revenues of $1MM or less. The evaluation reviews both the number of loan originations and the dollar volume. Overall, the bank's distribution of loans represents a reasonable penetration among individuals of different income levels and businesses of different revenue sizes.

TABLE 5 DISTRIBUTION BY INCOME LEVEL OF BORROWER AND REVENUE SIZE OF BUSINESSES					
Borrower Income Level	**Home Equity Loans**				**% of Families[1]**
	#	**$(000)**	**#%**	**$%**	
Low	1	55	2.9	1.7	7.4
Moderate	7	370	20.0	11.3	10.7
Middle	7	403	20.0	12.3	19.7
Upper	20	2,441	57.1	74.7	62.2
Business Revenue	**Small Business Loans**				**% of Businesses by Revenue[2]**
	#	**$(000)**	**#%**	**$%**	
$1MM or Less	60	10,465	93.8	86.7	94.5
Over $1MM	4	1,600	6.3	13.3	4.5
Income Not Known	0	0	0.0	0.0	1.0

[1] Based on 2010 ACS five-year estimate data.
[2] Based on 2016 D&B data.
(Note: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

Home Equity Loans

Table 5 reflects a reasonable distribution of consumer home equity lending among borrowers of different income levels. The bank originated 2.9 percent of loans by number (1.7 percent by dollar) to low-income borrowers, which was below the percentage of low-income families in the AA at 7.4 percent. Given the income and housing demographics in the AA, there appears to be limited opportunity to meet the credit needs of low-income families. High median incomes and a lack of affordable housing options in the bank's AA indicate there are few low-income families that own homes in the AA. A community representative also noted the competitive presence of large national financial institutions in the area. However, the bank originated 20.0 percent of loans by number and 11.3 percent by dollar to moderate-income borrowers, which exceeded the percentage of moderate-income families in the AA at 10.7 percent. By dollar volume, approximately 22.9 percent of total loans were made to LMI borrowers.

Lending performance to middle-income borrowers at 20.0 percent by number was above AA demographics at 19.7 percent, while lending to upper-income borrowers at 57.1 percent was below the demographic figure of 62.2 percent.

Small Business Loans

As shown in Table 5, small business lending reflects a reasonable distribution among businesses of different revenue sizes. The bank originated 93.8 percent by number and 86.7 percent by dollar of its small business loans to businesses with revenues of $1MM or less. Performance is comparable to AA demographics with 94.5 percent of businesses in the area reporting revenues of $1MM or less. Lending to businesses with gross annual revenues over $1MM at 6.3 percent by number exceeded the demographic figure at 4.5 percent.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory acts or practices was identified. Furthermore, the bank has not engaged in any illegal credit practices inconsistent with helping to meet community credit needs.