PUBLIC DISCLOSURE

March 14, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Solera National Bank
Charter Number 24737

319 S Sheridan Boulevard
Lakewood, CO 80226

Office of the Comptroller of the Currency

1225 17th Street, Suite 450
Denver, CO 80202

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.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

Our rating is based on the following:

- The bank's loan-to-deposit ratio is reasonable given its asset size, financial condition, and lending opportunities within the assessment area (AA).

- The distribution of loans to borrowers of various income level and businesses of various size reflects reasonable penetration.

- The geographic distribution of loans reflects excellent dispersion among low- and moderate-income geographies.

- Community Development (CD) lending reflects excellent responsiveness to AA needs. The bank originated 10 CD loans during the evaluation period totaling $8.4 million, or 45 percent of tier 1 capital.

SCOPE OF EXAMINATION

We assessed the Community Reinvestment Act (CRA) performance of Solera National Bank (SNB) using the lending test criteria for small bank examinations. Our evaluation period was from August 19, 2010 to March 14, 2016. Based on number and dollar amount of loans originated between January 1, 2013 and December 31, 2015, residential real estate (RRE) and commercial loans were determined to be SNB's primary loan products. We selected a statistical sample of 20 commercial real estate (CRE) loans, 20 commercial loans, and analyzed Home Mortgage Disclosure Act (HMDA) data 2013 through 2015. We conducted a HMDA data integrity review in November 2015 by comparing the bank's Loan Application Registers (LARs) to original loan documentation. We found the HMDA data is accurate and reliable for use during this examination.

We also reviewed all the bank's CD loans, investments, and services the bank originated during the evaluation period.

DESCRIPTION OF INSTITUTION

SNB is a $146 million financial institution with its main office located in Lakewood, Colorado. SNB is wholly-owned by a one-bank holding company, Solera National Bancorp, Incorporated. The bank does not currently operate any branches outside of the main office location.

SNB's lending strategy significantly shifted during our evaluation period. From 2010 to 2013, the bank's primary lending niche was business lending. In December 2012, SNB purchased a mortgage company including five mortgage loan production offices (LPOs) located throughout the state of Colorado and began originating RRE loans during 2013. The five LPOs were not located in SNB's assessment area. In 2014, SNB dissolved the mortgage company due to unfavorable interest rates and lack of profitability. Throughout the evaluation period, business lending remained a primary focus for SNB.

With the exception of mortgage lending, SNB currently offers traditional banking products tailored to meet the needs of the local community. As of December 31, 2015, loans totaled $83 million and represented 57 percent of the institution's total assets. The following table illustrates that SNB's loan portfolio composition remains heavily weighted in business loans (commercial real estate and commercial loans).

Loan Product Category	Dollar Amount Outstanding ($000)	Percentage of Portfolio
Commercial Real Estate	42,381	51
Commercial	8,420	10
Residential Real Estate	30,484	37
Other	1,863	2
Total	83,148	100.00

Source: December 31, 2015 Consolidated Reports of Condition and Income

A CRA Performance Evaluation (PE) was last prepared and dated September 27, 2010, with a "Satisfactory" rating assigned.

There are no known legal, financial, or other factors impeding the bank's ability to meet the credit needs in the AA.

DESCRIPTION OF ASSESSMENT AREA (AA)

The bank's AA contains six of the 10 counties in the Denver MSA, which includes the counties of Adams, Arapahoe, Broomfield, Denver, Douglas, and Jefferson. The AA is reasonable, consists of contiguous whole geographies, and includes the bank's main office. The AA does not arbitrarily exclude any low- or moderate-income areas. The AA consists of 69 low-income tracts (11%), 137 moderate-income tracts (23%), 197 middle-income tracts (33%), and 195 upper-income (32%) tracts.

Based on the 2010 U.S. Census, the AA reflects total population of 2,489,661 persons and 956,000 households. The weighted average HUD median family income is $76,700. Households below the poverty level represent 11 percent of the AA and 1.88 percent receive public assistance. Housing units within the AA is 61 percent owner occupied and 32 percent occupied rental units.

There are 287,092 businesses within the AA and a majority are small businesses with 81 percent of AA businesses reporting annual revenues below $1 million. Only 4 percent of businesses in the AA have revenues exceeding $1 million. 2010 census data shows that 89 percent of local businesses own the property on which they operate with only 2 percent renting.

There is significant banking competition within the AA. There are 70 independent financial institutions operating within the bank's AA, many with extensive branching networks. In addition, there are numerous non-banking financial service providers including: finance companies, payday lenders, and brokers. Per the June 2015 FDIC market share report, SNB controlled only a small portion of the AA’s market share at 0.16 percent.

December 2015 Moody's analytics report shows key economic drivers in the Denver area are professional and business services, government, education, health services, and hospitality. Top employers are heavily centered in healthcare services with four of the five largest employers being healthcare/hospital related. Regional economic strengths include a sturdy housing market, rapid population growth, a highly skilled workforce, and high employment diversity. Weaknesses include high cost of living and highly cyclical tech manufacturing concentrations.

During our evaluation of SNB, OCC examiners contacted a community organization that provides housing assistance to low- and moderate-income (LMI) households. The contact stated they had a neutral perception of area financial institutions. The community contact stated that there are opportunities for financial institutions to better serve the low- and moderate-income (LMI) community through apartment development projects, improved and simplified communication to LMI households, and assistance with financial education.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio
SNB's loan-to-deposit (LTD) ratio is reasonable given the bank's performance context and highly competitive operating environment. SNB's quarterly average LTD ratio from September 30, 2010 to December 31, 2015, was 58 percent. The institution’s LTD ratio ranged from a high of 74 percent to a low of 44 percent during this period. The average LTD ratio of similarly situated financial institutions over the same period was 64 percent, with a high of 77 percent and a low of 49 percent.

During our evaluation period, SNB also originated over $300 million in RRE loans from 2013-2014 which were sold to the secondary market. The bank’s LTD ratio does not include these loans sold to the secondary market.

Lending Within Assessment Area
Lending within the AA is considered reasonable given the bank’s performance context and change of lending focus during the evaluation period. As evidenced in the following chart, total loan originations to borrowers inside of the AA are heavily skewed by RRE originations. SNB operated five mortgage loan production offices throughout the state of Colorado, which resulted in the large volume of RRE originations during 2013 and part of 2014. By number and dollar amount of total loans, SNB originated only 19 and 23 percent, respectively, inside the AA. However, we weighted our assessment more heavily on business loans given SNB’s mortgage department operated for only a short time during our CRA evaluation period. A substantial majority of commercial originations were made to borrowers located inside the AA. By number, SNB originated 80 and 90 percent of CRE and commercial loans, respectively, within the AA. By dollar volume, SNB originated 75 and 76 percent of CRE and commercial loans, respectively, inside the AA.

Table 1 - Lending in Denver AA										
	Number of Loans					Dollars of Loans				
Loan Type	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		$	%	$	%	
Home Purchase	177	17	859	83	1,036	47,610	18	213,851	82	261,461
Home Refinance	68	18	310	82	378	19,049	20	78,568	80	97,617
Home Improvement	0	0	1	100	1	0	0	200	100	200
CRE	16	80	4	20	20	15,855	75	5,194	25	21,049
Commercial	18	90	2	10	20	6,398	76	2,035	24	8,433
Total	**279**	**19%**	**1,176**	**80%**	**1,455**	**88,912**	**23%**	**299,848**	**77%**	**388,760**

Source: Bank provided loan origination report; 2013-2015 HMDA data

Income Distribution of Loans
Overall, SNB's distribution of loans to borrowers of various income levels and businesses of various revenue size reflects reasonable penetration.

Residential Real Estate – Given population growth, the level of demand and competition for housing, and the high median housing price relative to median income, the borrower distribution of RRE loans reflects reasonable penetration among LMI borrowers.

The empirical distribution of RRE loans to low-income borrowers suggests poor penetration; however, AA economics indicate that RRE lending opportunities are limited as low-income households cannot afford to own their own home. SNB originated 12 percent of RRE purchase and refinance loans to low-income families, which is considered reasonable compared to area demographics showing 22 percent of AA families are low-income. A low-income family within the bank's AA earns less than $40 thousand in annual income and the median home price is $266 thousand, significantly limiting RRE lending opportunities to low-income families. Significant population growth within the Denver AA during the evaluation period has resulted in demand for housing far exceeding the housing supply. This factor has also significantly increased both home prices and competition for lower-priced housing units.

A recent local news article reported that a buyer of a median-priced home in metro Denver ($354 thousand in the fourth quarter of 2015) must earn $68,436 a year to qualify for a 30-year mortgage loan with a 20 percent down payment. For buyers who put down only 10 percent, the required annual income jumps to $80,712. The article further states that due to income and down payment requirements, low-income borrowers tend to gravitate towards rental units (*Denver Post, 2015*).

SNB's RRE lending to moderate-income families reflects reasonable penetration. 2010 U.S. Census shows that 17 percent of AA families are designated moderate-income. By number of loans, SNB originated 34 percent of home purchase and refinance loans to moderate-income families.

Table 2A - Borrower Distribution of Residential Real Estate Loans in Denver AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	22	9	17	24	20	27	41	40
Home Improvement	22	0	17	0	20	0	41	0
Home Refinance	22	3	17	10	20	21	41	56

Source: 2010 U.S. Census data; 2013-2015 HMDA data

Commercial Loans – Given the bank's performance context and area competition, the distribution of loans to commercial borrowers reflects reasonable penetration to small businesses. Demographic information reflects 81 percent of AA businesses are considered small businesses with annual revenues of less than $1 million. Based on statistical sampling, SNB originated 65 percent by number and 71 percent by dollar volume of commercial loans to small businesses.

Table 2B - Borrower Distribution of Loans to Commercial Borrowers in Denver AA				
Business Revenues (or Sales)	≤$1,000,000	>$1,000,000	Unavailable/ Unknown	Total
% of AA Business	81	4	15	100.00
% of Bank Loans in AA by #	65	35	0	100.00
% of Bank Loans in AA by $	71	29	0	100.00

Source: 2010 U.S. Census data; loan sample

Commercial Real Estate Loans – The distribution of loans to CRE borrowers reflects reasonable penetration among businesses of various sizes. SNB originated 80 percent by number and 69 percent by dollar volume of CRE loans to small businesses, which compares favorably to area business demographics.

Table 2C - Borrower Distribution of Loans to CRE Borrowers in Denver AA				
Business Revenues (or Sales)	≤$1,000,000	>$1,000,000	Unavailable/ Unknown	Total
% of AA Business	81	4	15	100.00
% of Bank Loans in AA by #	80	20	0	100.00
% of Bank Loans in AA by $	69	31	0	100.00

Source: 2010 U.S. Census data: loan sample

Geographic Distribution of Loans

The geographic distribution of both RRE and commercial loans reflects excellent dispersion throughout the AA.

Residential Real Estate – Given the bank's performance context, the geographic dispersion of RRE loans reflects excellent penetration among LMI tracts. The bank originated 11 percent of home purchase loans in low-income tracts as compared to demographic reports which reflect that 7 percent of owner occupied housing units are located in low-income tracts. Similarly, the bank originated 21 percent of home purchase loans in moderate-income tracts compared to 19 percent of owner occupied units located in moderate-income tracts.

Home refinance lending in low- and moderate-income tracts also exceeds area demographics. SNB originated 12 percent of its refinance loans in low-income tracts as compared to demographic reports showing just 7 percent of owner occupied housing located in low-income tracts. Further, the bank originated 24 percent of refinance loans in moderate-income tracts compared to 19 percent of owner occupied units located within such geographies.

The bank did not originate any home improvement loans within the AA during the assessment period.

Table 3A - Geographic Distribution of Residential Real Estate Loans in Denver AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	7	11	19	21	35	28	39	40
Home Improvement	7	0	19	0	35	0	39	0
Refinancing	7	12	19	23	35	35	39	29

Source: 2010 U.S. Census data; 2013-2015 HMDA data

<u>*Commercial Loans*</u> – The geographic distribution of commercial loans reflects excellent dispersion in the AA. Demographic information reflects 28 percent of AA businesses are located in LMI geographies. Based on a statistical sample, SNB originated 40 percent of commercial loans to borrowers located in LMI geographies, exceeding the demographic data for the AA.

Table 3B - Geographic Distribution of Loans to Commercial Borrowers in Denver AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Loans	8	20	20	20	30	35	41	25

Source: 2010 U.S. Census Data; loan sample

<u>*Commercial Real Estate Loans*</u> – The geographic distribution of CRE loans reflects excellent dispersion within the AA. SNB originated 10 percent of sampled CRE loans in low-income CTs, which compares favorably to demographic information showing just 8 percent of AA businesses located within such CTs. Similarly, the bank originated 45 percent of sampled loans within moderate-income CTs, which substantially exceeds area demographics showing 20 percent of AA businesses located in such geographies.

Table 3C - Geographic Distribution of Loans to CRE Borrowers in Denver AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
CRE Loans	8	10	20	45	30	20	41	25

Source: 2010 U.S. Census Data; loan sample

Responses to Complaints

Neither the Office of the Comptroller of the Currency nor the bank received any complaints about its CRA performance during the evaluation period.

Number and Amount of Community Development (CD) Loans

CD lending reflects excellent responsiveness to AA needs and had a positive impact on the lending performance within the AA. SNB originated 10 CD loans during the evaluation period totaling $8.4 million, or 45 percent of tier 1 capital.

Community development loans served the purpose of affordable housing, community service, and economic development. Three loans totaling $3.1 million funded affordable housing projects. Per the community contact, affordable housing is a critical need within the AA. In addition, SNB provided $4.1 million to assist local organizations to fund community service projects. Such projects included: housing for low-income mental health patients, crisis intervention services to LMI communities, education services to LMI students, and crisis housing in LMI communities. Additionally, SNB originated a $1.2 million loan, which assisted with economic development in a low-income geography. This loan funded the purchase of a commercial real estate property, which houses eight local small businesses.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank’s (bank) or Federal savings (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.