



PUBLIC DISCLOSURE

June 06, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

San Luis Valley Federal Bank
Charter Number 701142

401 Edison Ave
Alamosa, CO 81101

Office of the Comptroller of the Currency

1225 17th Street
Suite 450
Denver, CO 80202-5534

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 Outstanding

Summarize the major factors supporting the institution's rating.

- San Luis Valley Federal Bank's quarterly average loan-to-deposit ratio is more than reasonable;
- The bank originated a substantial majority of their loans within its designated assessment area (AA);
- The pattern of lending to borrowers of different income levels is reasonable;
- The bank's geographic distribution of loans reflects reasonable dispersion; and
- SLVFB demonstrates excellent responsiveness to community development needs through community development loans and services.

SCOPE OF EXAMINATION

This performance evaluation assesses San Luis Valley Federal Bank's (SLVFB or Bank) Community Reinvestment Act (CRA) performance using the lending test criteria for small bank examinations. The lending test evaluates the bank's record of meeting the credit needs in its assessment area. We focused our review on 1-4 family mortgages. This was the bank's primary loan product based on number and dollar volume of loans originated during the sample period. To assess lending performance we reviewed 21 mortgage loans originated between January 1, 2013 and December 31, 2015. We also contacted a community representative during this examination to gather information on the local economy and general credit needs.

DESCRIPTION OF INSTITUTION

SLVFB is a federally chartered mutual thrift with \$260 million in total assets. The Bank is headquartered in Alamosa, Colorado, which is located in southern Colorado. The bank operates a main office and two retail branches in the San Luis Valley area, with two in Alamosa and one in Monte Vista, Colorado. The bank does not have any deposit-taking ATMs outside of the deposit-taking ATMS in all branch locations. The main office is open from 7:30 a.m. to 6 p.m. Monday through Friday and is also open on Saturdays from 8 a.m. to 12 p.m. The two branches are open 8 a.m. to 5 p.m. Monday through Friday. No branches were opened or closed during the evaluation period.

SLVFB primarily originates single-family variable and fixed rate residential loans for the construction, purchase, refinance, or improvement of single family residences. Additional credit products offered include agriculture loans, multifamily loans, owner and non-owner occupied commercial real estate loans, commercial and industrial loans, and

consumer loans (including auto loans). SLVFB offers a first time homeowners program and sells a small portion of loans through the Mortgage Partnership Finance (MPF) program. The Bank offers a full line of noncomplex deposit products including savings accounts, NOW checking accounts, individual retirement accounts, and certificates of deposit. Each branch offers the same services including the ability to originate mortgage and consumer loans.

SLVFB’s loan portfolio is primarily comprised of single-family residential loans that include residential loans secured by first and junior liens and construction loans for 1-4 family residences. Table 1 provides the loan portfolio breakdown by dollar amount as of December 31st for each of the prior three years.

Table 1- Loan Portfolio Breakdown for San Luis Valley Federal Bank						
	2013		2014		2015	
	\$ (000)s	% of Total	\$ (000)s	% of Total	\$ (000)s	% of Total
1-4 Family Mortgages	119,152.00	74%	112,405.00	73%	113,615.00	74%
Consumer	2,600.00	2%	2,815.00	2%	2,605.00	2%
Farm	1,068.00	1%	1,335.00	1%	1,361.00	1%
Business	27,741.00	17%	25,547.00	16%	24,085.00	15%
Other	10,001.00	6%	12,801.00	8%	12,901.00	8%
Total	160,562.00	100%	154,903.00	100%	154,567.00	100%

Source: Bank Loan Reports 2013-2015

There are no legal or financial impediments to the Bank’s ability to meet the credit needs in the assessment area. SLVFB received an “Outstanding” rating at the last CRA examination dated December 31, 2009.

DESCRIPTION OF SAN LUIS VALLEY ASSESSMENT AREA (AA)

Management designated one AA in the San Luis Valley that includes the following adjacent counties: Alamosa, Rio Grande, Conejos, Costilla, Mineral, and Saguache counties. These six counties are located in southern Colorado, north of the New Mexico border and are not in a designated Metropolitan Statistical Area (MSA). The AA complies with applicable regulatory requirements and does not arbitrarily exclude any low- or moderate-income (LMI) areas.

The AA includes 14 census tracts with 3,548 families designated as low-income (31 percent), 2,466 families designated as moderate-income (22 percent), and 2,337 families designated as middle-income (21 percent). In addition, four of the middle-income tracts in the AA are designated as distressed or underserved. The main office

and one branch are located in the town of Alamosa, which consists of two middle-income census tracts (CTs). The remaining branch in Monte Vista, CO is located in a moderate-income tract.

Economic conditions of the valley have improved since the national recession but remain stressed. In addition, economic recovery in the area has lagged the nation and the state. The area's unemployment rate reached a high of 13 percent in 2010 and remains elevated at 5 percent. The 2010 U.S. Census showed median family income for the AA is \$57,817 with a significant 21 percent of individuals in the AA considered below the poverty level. Further, Conejos and Costilla counties are two of the poorest counties in the country. The median sales price of a home in San Luis Valley is \$139,943. At this price point it is difficult for low-income individuals to qualify for a mortgage loan based on the area's median family income. Low-income individuals have a maximum income of just \$28,909. Demographic data also shows that almost 20 percent of available housing is rental property and another 32 percent of available housing is vacant. These properties are generally located in low- and moderate-tracts and likely not available for purchase.

The primary industry for the AA is agriculture and includes farming and ranching. This industry provides one of the lowest average annual wages in the AA. The AA's two largest employers are San Luis Valley Health and Adams State University. San Luis Valley Health includes a regional hospital and several clinics within the valley. Adams State University is a four year university located in Alamosa, CO. Both businesses are financially stable and are expected to continue to provide long-term job opportunities in the valley.

SLVFB faces strong competition within the AA that includes community and larger regional financial institutions. There are eight competing banks located within the AA: Alamosa State Bank, First Southwest Bank, Community Banks of Colorado (NBH), Rio Grande Savings and Loan Association, Sunflower Bank, Del Norte Bank, Pine River Valley Bank, and Frontier Bank. As of June 30, 2015 SLVFB holds 25 percent of the market share of deposits within the AA.

We contacted a community representative during this evaluation. The representative identified agriculture and residential mortgages as the primary credit needs of the area. The representative also indicated that local financial institutions are adequately meeting the credit needs of the community and effectively working together to help with community development activities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit (LTD) Ratio

The bank's quarterly average LTD ratio is more than reasonable given the bank's size, financial condition, and local area economic conditions.

SLVFB’s LTD ratio averaged 78 percent over the 18 quarters since the last CRA evaluation and ranged from a high of 101 percent to a low of 69 percent. The bank’s average LTD ratio is high given the challenging economic conditions in the community, and compared to the average LTD ratio of similarly situated banks. Similarly situated banks LTD ratio averaged 69 percent, with a high of 97 percent and a low of 53 percent. Similarly situated banks are those banks of comparable asset size and operating within similar geographies.

Lending in Assessment Area

SLVFB originates a substantial majority of residential loans within its AA.

Our random sample of 21 loans found all 21 located inside the AA.

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

SLVFB’s mortgage lending reflects a reasonable penetration among borrowers of different incomes given weak economic conditions and area demographics.

Our loan sample reflects that 43 percent of home loans were originated to low- and moderate-income (LMI) individuals. This compares reasonably well to area demographics which reflects that 53 percent of families living in the AA are designated as LMI. Table 2 below shows that the bank’s penetration of low-income individuals is lower than area demographics, but loans to moderate-income individuals exceeds area demographics. The Bank’s lending to low-income individuals and families is considered reasonable given that housing prices make it difficult for low income individual to qualify for a mortgage loan. In addition, 21 percent of the population is below the poverty level which further limits lending opportunities.

Table 2- Borrower Distribution of Residential Real Estate Loans in San Luis Valley								
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
1-4 Family Mortgages	31.24%	14.29%	21.71%	28.57%	20.57%	14.29%	26.48%	42.86%

Geographic Distribution of Loans

The geographic distribution of loans in the bank’s AA is reasonable given area demographics.

The AA does not include low-income consensus tracts (CTs). Table 3 below reflects that 62 percent of loans by number were originated in moderate-income tracts. The same

loans represent 52 percent by dollar amount. The bank’s lending performance is lower than area demographics which shows that 77 percent of owner occupied housing is located in moderate-income tracts. However, performance is satisfactory given the limited lending opportunities in the AA. Moderate-income CTs in this AA are in rural areas with limited housing options and a small population size. In addition, there is a high level of rental properties in the AA, further limiting lending opportunities.

Table 3- Geographic Distribution of Residential Real Estate Loans in San Luis Valley 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
1-4 Family Mortgages	0.00%	0.00%	77.87%	61.90%	22.13%	38.10%	0.00%	0.00%

Responses to Complaints

There have been no CRA complaints or complaints related to unfair credit practices to date.

CD Loans and CD Services (Optional)

SLVFB has demonstrated excellent responsiveness to the community development (CD) needs in its AA given its size, financial condition and local economic conditions. The bank has provided qualified loans and charitable donations totaling 4.71% of tier one capital during the evaluation period. The bank’s CD lending and donations positively impact the bank’s overall performance rating.

The bank originated two CD loans totaling \$1.8 million and representing 4.47 percent of tier one capital. These loans were originated to a local hospital that primarily serves low and moderate-income families. Additionally, the bank provided \$98 thousand in qualified donations to charitable organizations that provide services to LMI individuals.

The CD services provided by the bank are adequate given the size of the financial institution and the credit needs of the AA. SLVFB’s branches are reasonably accessible to all individuals in the AA. The Monte Vista branch is located in a moderate-income tract. Bank branches offer uniform products and operating hours. The main office is open extended weekday hours and on Saturdays. The bank offers free checking which continues to be a main deposit product line.

Fair Lending or Other Illegal Credit Practices Review

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

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