

Solera National Bancorp, Inc.
Form 10-K
March 27, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

o TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-53181

SOLERA NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

02-0774841
(I.R.S. Employer

Edgar Filing: Solera National Bancorp, Inc. - Form 10-K

incorporation or organization)

Identification No.)

319 South Sheridan Boulevard Lakewood, CO 80226
(Address of principal executive offices, including zip code)

(303) 209-8600
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value

\$.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Edgar Filing: Solera National Bancorp, Inc. - Form 10-K

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the price at which the common equity was last sold as of June 30, 2011 was \$6,017,553.

The number of shares of common stock, par value \$0.01 share, of the Registrant outstanding as of March 16, 2012, was 2,553,671.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Company's definitive proxy statement for the 2012 Annual Meeting of Stockholders, expected to be held in June 2012, are incorporated by reference into Part III of this Form 10-K.

Table of Contents

SOLERA NATIONAL BANCORP, INC.

ANNUAL REPORT ON FORM 10-K

INDEX

		PAGE
<u>PART I</u>		
	<u>ITEM 1.</u>	<u>BUSINESS</u>
	<u>ITEM 1A.</u>	<u>RISK FACTORS</u>
	<u>ITEM 1B.</u>	<u>UNRESOLVED STAFF COMMENTS</u>
	<u>ITEM 2.</u>	<u>PROPERTIES</u>
	<u>ITEM 3.</u>	<u>LEGAL PROCEEDINGS</u>
	<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES</u>
		4 27 33 33 33 33
<u>PART II</u>		
	<u>ITEM 5.</u>	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>
	<u>ITEM 6.</u>	<u>SELECTED FINANCIAL DATA</u>
	<u>ITEM 7.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>
	<u>ITEM 7A.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>
	<u>ITEM 8.</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>
	<u>ITEM 9.</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>
	<u>ITEM 9A.</u>	<u>CONTROLS AND PROCEDURES</u>
	<u>ITEM 9B.</u>	<u>OTHER INFORMATION</u>
		33 34 34 45 45 45 45 46
<u>PART III</u>		
	<u>ITEM 10.</u>	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>
	<u>ITEM 11.</u>	<u>EXECUTIVE COMPENSATION</u>
	<u>ITEM 12.</u>	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>
	<u>ITEM 13.</u>	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>
	<u>ITEM 14.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>
		46 46 47 47 47
<u>PART IV</u>		
	<u>ITEM 15.</u>	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>
		48-49
	<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1

Table of Contents

PART I

INTRODUCTORY NOTE. CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND RISK FACTORS

This Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 about Solera National Bancorp, Inc. (the Company) and its subsidiary, Solera National Bank (the Bank, collectively with the Company, sometimes referred to as we, us and our) that are subject to risks and uncertainties. Forward-looking statements include information concerning future financial performance, business strategy, projected plans and objectives. Statements preceded by, followed by or that otherwise include the words anticipates, believes, estimates, expects, intends, plans, may increase, may fluctuate and similar expressions of future or conditional verbs such as will, should, would, and could are generally forward-looking in nature and not historical facts. Actual results may differ materially from those projected, implied, anticipated or expected in the forward-looking statements. Readers of this Annual Report should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this Report. The statements are representative only as of the date they are made, and Solera National Bancorp, Inc. undertakes no obligation to update any forward-looking statement.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates, financial condition, results of operations, future performance and business, including management's expectations and estimates with respect to revenues, expenses, return on equity, return on assets, efficiency ratio, asset quality and other financial data and capital and performance ratios.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors, some of which are beyond the control of the Company. The following factors, among others, could cause the Company's results or financial performance to differ materially from its goals, plans, objectives, intentions, expectations and other forward-looking statements:

- the Company has a limited operating history upon which to base an estimate of its future financial performance;
- management of Solera National Bank may be unable to limit credit risk associated with Solera National Bank's loan portfolio, which would affect the Company's profitability;
- general economic conditions may be less favorable than expected, causing an adverse impact on our financial performance;
- the Company is subject to extensive regulatory oversight, which could restrain its growth and profitability;

Edgar Filing: Solera National Bancorp, Inc. - Form 10-K

- our ability to comply with our Consent Order issued by the Office of the Comptroller of the Currency, (OCC), and potential regulatory actions if we fail to comply;
- interest rate volatility could significantly harm our business;
- the Company may not be able to raise additional capital on terms favorable to it;
- the effects of competition from a variety of competitors; and
- other factors including those disclosed under *Part I Item 1A Risk Factors* in this Annual Report on Form 10-K.

Any forward-looking statement made in this Annual Report on Form 10-K or elsewhere speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for management to predict these events or how they may affect the Company. The Company has no duty to, and does

Table of Contents

not intend to, update or revise the forward-looking statements in this Annual Report on Form 10-K after the date of this filing, except as may be required by law. In light of these risks and uncertainties, any forward-looking statement made in this Annual Report on Form 10-K or elsewhere might not occur.

Item 1. Business

Overview

Solera National Bancorp, Inc. - The Company, headquartered in Lakewood, Colorado, was organized as a Delaware corporation in 2006 to serve as a bank holding company for the Bank. The Company received approval from the Federal Reserve Bank of Kansas City to operate as a bank holding company for Solera National Bank in July 2007. The Company raised a total of \$25.5 million in its initial public offering and used \$20.0 million of the proceeds to purchase shares of the Bank's common stock.

The Company chose a holding company structure because it believed it would provide flexibility in accommodating the Company's and Bank's business objectives. For example, with a holding company structure, the Company may assist the Bank in maintaining its required capital ratios by borrowing money and contributing the proceeds of that debt to the Bank as primary capital. Additionally, under provisions of the Gramm-Leach-Bliley Act, if the Company elected to be a financial holding company, it could engage in activities that are financial in nature or incidental or complementary to a financial activity, including merchant banking activities, in which the Bank would be prohibited from engaging.

At this time, the Company engages in no material business operations other than owning and managing the Bank. At December 31, 2011, Solera National Bancorp, Inc. had no employees, as all staff are employees of the Bank.

Solera National Bank - On September 10, 2007, the Bank began banking operations as a federally-chartered national bank, having received all necessary regulatory approvals. The Federal Deposit Insurance Corporation, (FDIC), insures the Bank's deposit accounts up to the maximum amount currently allowable under federal law. The Bank is subject to examination and regulation by the OCC. The Bank is further subject to regulations by the Federal Reserve Board concerning reserves to be maintained against deposits and certain other matters and is a member of the Federal Reserve Bank (FRB).

Solera National Bank is a full-service commercial bank headquartered in Lakewood, Colorado with 25 full-time equivalent employees primarily dedicated to serving the six-county Denver metropolitan area. The Bank offers a broad range of commercial and consumer banking services to small- and medium-sized businesses, licensed professionals and individuals. While the Bank serves the entire community, it has a specialized focus serving the local Hispanic and other minority populations which it believes are currently underserved. The Bank's website is www.solerabank.com.

Available Information

The Company's Investor Relations information can be obtained through the Bank's internet address, www.solerabank.com. The Company makes available on or through its Investor Relations page, without charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The Company's reports filed with, or furnished to, the SEC are also available at the SEC's website at www.sec.gov. In addition, the Company makes available, free of charge, its press releases, and charters for the Audit Committee, Compensation Committee and Nomination and Corporate Governance Committee through the Company's Investor Relations page. Information on our website is not incorporated by reference into this document and should not be considered part of this Report.

Philosophy and Strategy

Solera National Bank operates as a full-service community bank offering a wide array of financial products while emphasizing prompt, personalized customer service. The Bank believes that this philosophy, encompassing the service aspects of community banking, distinguishes the Bank from its competitors.

Table of Contents

To carry out its philosophy, the Bank's business strategy involves the following:

- capitalizing on the diverse community involvement, professional expertise and personal and business contacts of its Directors, executive officers and Community Advisory Council members;
- hiring and retaining experienced and qualified banking personnel, many of whom are bilingual;
- providing personalized customer service with consistent, local decision-making authority;
- utilizing technology and strategic outsourcing to provide a broad array of convenient products and services;
- operating from a highly visible and accessible banking office in close proximity to concentrations of targeted commercial businesses, professionals and individuals; and
- utilizing an effective business development calling program.

Market Opportunities

Primary Service Area. Solera National Bank's primary service area is the six-county Denver metropolitan area. The Bank's main office is located at 319 South Sheridan Boulevard in Lakewood, Colorado. According to information gathered from SNL Analytics, within a three mile radius of the Bank's main office, there are approximately 7,250 businesses, 97,000 employees and 198,000 residents. The Bank is targeting these small- to mid-sized businesses, as well as local residents. This location offers the ability to target Hispanic and other minority populations as approximately 52% are Hispanic households within three miles of the Bank's main office. Most of the Bank's customers are from our primary service area.

National Economy. On a national level, most economic indicators showed continued signs of improvement by the end of 2011. Preliminary data show the U.S. GDP increased at an annual rate of 3.0% in the fourth quarter, reflecting the upturn in private inventory investment, along with accelerations in personal consumption expenditures and in residential and non-residential fixed investment, partly offset by reduced levels of government spending at both the federal and state level. Consumer confidence readings indicate consumers are less pessimistic about current business and labor market conditions than they were in recent months, and more optimistic about the short-term outlook for the economy.

Edgar Filing: Solera National Bancorp, Inc. - Form 10-K

The U.S. economy added 227,000 jobs in February while hiring in January and December was revised up by a combined 61,000, according to figures released by the U.S. Labor Department on March 9, 2012. The unemployment rate remained unchanged at 8.3%. Although the job market is improving, the pace of improvement still remains too slow to absorb the approximately 23.5 million Americans who are either out of work or underemployed.

Colorado Economy. According to statistics released on March 13, 2012 by the Colorado Department of Labor and Employment, nonfarm payroll jobs in Colorado increased by 19,500 from December to January to 2,284,800 jobs, according to the survey of business establishments. Private sector increased by 22,500 and government decreased by 3,000 payroll jobs. According to the survey of households, the unemployment rate decreased one-tenth of a percentage point to 7.8%. The number of people actively participating in the labor force decreased 3,900 to 2,730,100 and total employment decreased 1,900 to 2,517,100 causing the number of unemployed to decline 2,000.

Over the year, the unemployment rate is down 1% from 8.9% in December 2010. The number of Coloradans participating in the labor force increased 58,900, total employment increased 80,900 and the number of unemployed decreased 22,000.

Denver Metropolitan Area Economy. Data from the last months of 2011 and into January 2012 continue to show improvement in the economy, albeit slow. The unemployment average for 2011 was lower than in 2010, home sales and median home prices are beginning to increase, consumer confidence in the Mountain Region is at an all-time high since September 2008, and the stock markets have all increased year-to-date, according to data compiled by the Metro Denver Economic Development Corporation (Metro Denver EDC) in its Monthly Economic

Table of Contents

Summary for February 2012. The Denver metro area's unemployment rate stood at 8.4 percent in January, down from a 9.3 percent rate in the same month of 2011, according to raw, unadjusted county jobs data released Tuesday by the Colorado Department of Labor and Employment

Management believes that our primary market has begun to stabilize compared to the significant negative trends experienced during 2008, 2009 and 2010. However, there can be no guarantee that growing concerns about the global economy will not have an adverse impact on the local economy in which the Company operates.

Competition. Solera National Bank faces substantial competition in both lending and deposit originations from other commercial banks, savings and loan associations, credit unions, consumer finance companies, pension trusts, mutual funds, insurance companies, mortgage bankers and brokers, brokerage and investment banking firms, asset-based non-bank lenders, and certain other non-financial institutions, including retail stores, that may offer more favorable financing alternatives than the Bank. The Bank generally competes based on customer service, the rates of interest charged on loans and the rates of interest paid for deposits.

According to information disclosed on the FDIC's website (www.fdic.gov), as of June 30, 2011, most of the deposits held in traditional banking institutions in the Bank's primary banking market are attributable to super-regional banks (serving several states) and branch offices of out-of-state banks. The Company believes that banks headquartered outside of its primary service areas often lack the consistency of local leadership necessary to provide efficient service to individuals and small- to medium-sized business customers. Through its local ownership and management, the Company believes Solera National Bank is positioned to efficiently provide these customers with loan, deposit and other financial products tailored to fit their specific needs. We believe that we can compete effectively with larger and more established banks through an active business development program and by offering local access, competitive products and services, and more responsive customer service.

Business Strategy

Operating Strategy. In order to achieve the level of prompt, responsive service necessary to attract customers and to develop the Bank's image as a local bank with a community focus, we have employed the following operating strategies:

- *Experienced senior management.* Our senior management possesses extensive experience in the banking industry, as well as substantial business and banking contacts in its primary service area.
- *Quality employees.* We have hired, and will continue to hire, highly-trained and seasoned staff. Ongoing training provides the staff with extensive knowledge of the Bank's products and services enabling our employees to answer questions and resolve customer issues quickly. We have hired bilingual staff to serve diverse banking customers, including the Hispanic community.
- *Community-oriented Board of Directors.* The Bank's directors are either experienced bankers or local business and community leaders. All of our Directors are currently or have been residents of the Bank's primary service area, and most have significant business ties to

Edgar Filing: Solera National Bancorp, Inc. - Form 10-K

the Bank's primary service area, enabling them to be sensitive and responsive to the needs of the community. Additionally, the Board of Directors encompass a wide variety of business experience and community involvement.

- *Well situated site.* The main office, located at 319 South Sheridan Boulevard in Lakewood, Colorado, occupies a highly visible location at a major traffic intersection. This site gives the Bank highly visible presence in a market that is dominated by branch offices of banks headquartered out of the area.
- *Individual customer focus.* The Bank is able to respond to credit requests quickly and be more flexible in approving loans based on collateral quality and personal knowledge of the customer. Clients enjoy the convenience of on-site visits by the Bank's business relationship managers and business consultation services.
- *Financial education and information resource center.* The Bank serves as a financial and information center for the community, sponsoring professionals to conduct seminars and workshops on a variety of subjects of interest.

Table of Contents

- *Officer, Director and Community Advisory Council call program.* We have implemented an active call program to promote our philosophy. The purpose of this call program is to visit prospective customers and to describe the Bank's products, services and philosophy and attend various business and community functions. All of the Bank's officers, Directors and Community Advisory Council members have extensive contacts in the Denver metropolitan market area.

- *Marketing and advertising.* The most significant marketing of the Bank are the calls on contacts provided by the officers, Directors, organizers, and stockholders of Solera National Bancorp, Inc. Additionally, the Bank expanded its outreach by forming a Community Advisory Council. The Council meets and communicates regularly to identify opportunities for the Bank.

Growth Strategies. We have implemented the following growth strategies:

- *Capitalize on community orientation.* Management is capitalizing on the Bank's position as an independent, community bank to attract individuals, professionals and local business customers that may be underserved by larger banking institutions in its market area. As discussed previously, this includes tailoring services to the needs of the local community, particularly the Hispanic population.

- *Emphasize local decision-making.* We are able to differentiate ourselves from the major regional banks operating in our market area by offering local decision-making by experienced bankers. This helps the Bank attract local businesses and service-minded customers.

- *Attract experienced lending officers.* Solera National Bank has hired experienced, well-trained lending officers. By hiring experienced lending officers, the Bank is able to grow more rapidly than it would if it hired inexperienced lending officers.

- *Offer fee-generating products and services.* The Bank's range of services, pricing strategies, interest rates paid and charged, and hours of operation are structured to attract its target customers and increase its market share. Solera National Bank strives to offer the small business person, professional, entrepreneur, and consumer, competitively priced products and services while utilizing technology and strategic outsourcing to increase fee revenue.

- *Small business lending.* The Bank provides services and capabilities for small- to medium-sized businesses utilizing long-term financing for business acquisition, debt refinancing, working capital, real estate and equipment. The Bank has hired loan officers with extensive knowledge of small-business lending to provide adequate funding for the needs of these potential customers.

Lending Services

Edgar Filing: Solera National Bancorp, Inc. - Form 10-K

Lending Policy. The Bank offers a full range of lending products, including commercial loans to small- to medium-sized businesses, professionals, and consumer loans to individuals. The Bank understands that it is competing for these loans with competitors who are well established in its primary market area and have greater resources and lending limits. A timely response to credit requests has provided the Bank a competitive advantage.

The Bank's loan approval policy provides for two levels of lending authority. When the amount of total loans to a single borrower exceeds the Bank's President's or Chief Credit Officer's lending authority, the Board of Director's Credit Committee determines whether to approve the loan request.

Lending Limits. The Bank's lending activities are subject to a variety of lending limits. In general, the Bank may loan to any one borrower a maximum amount equal to 15% of the Bank's capital and surplus, or 25% if the amount that exceeds 15% is fully secured by financial instruments. These lending limits will increase or decrease as the Bank's capital increases or decreases as a result of its earnings or losses, among other reasons.

Credit Risks. The principal economic risk associated with each category of loans that the Bank expects to make is the creditworthiness of the borrower. Borrower creditworthiness is affected by general economic conditions and the strength of the relevant business market segment which impacts a borrower's ability to repay. The larger, well-established financial institutions in the Bank's primary service area are likely to make proportionately more loans to medium- and large-sized businesses than the Bank will make. The majority of the Bank's commercial loans

Table of Contents

are made to small- and medium-sized businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers.

Real Estate Loans. The Bank makes commercial real estate loans, construction and development loans and residential real estate loans. The following is a description of each of the major categories of real estate loans that the Bank makes and the risks associated with each category of loan.

- *Commercial real estate loans.* Commercial real estate loan terms generally are limited to ten years or less, although payments may be structured on a longer amortization basis. Interest rates may be fixed or adjustable, although rates typically will not be fixed for a period exceeding 60 months. The Bank generally charges an origination fee for its services. The Bank also generally requires personal guarantees from the principal owners of the business or property supported by a review by Bank management of the principal owners' personal financial statements. For analytical purposes, we categorize our commercial real estate loans into those that are owner occupied and those that are non-owner occupied. Generally, non-owner occupied loans have more inherent risk as the borrower's ability to repay is dependent upon the tenant's ability to pay. Risks associated with commercial real estate loans include fluctuations in the value of real estate, new job creation trends, tenant vacancy rates and the quality of the borrowers' management. The Bank limits its risk by analyzing borrowers' cash flow and collateral value on an ongoing basis.
- *Construction and development loans.* The Bank generally makes owner-occupied construction loans with a pre-approved take-out loan and considers non-owner occupied construction loans on a case-by-case basis. Construction and development loans are generally made with a term of twelve to eighteen months and interest is paid monthly. The ratio of the loan principal to the value of the collateral as established by independent appraisal typically will not exceed industry standards. Loan proceeds are disbursed based on the percentage of completion and only after the project has been inspected by an experienced construction lender or third-party inspector. Risks associated with construction loans include fluctuations in the value of real estate and new job creation trends.
- *Residential real estate loans.* The Bank makes residential real estate loans consisting of residential second mortgage loans, home equity loans and lines of credit, and home improvement loans and lending for the purchase or refinance of one-to-four family properties. The amortization of second mortgages generally does not exceed 15 years and the rates are generally not fixed for over 60 months. The amortization of first mortgages generally does not exceed 25 years and the rates are fixed with final maturity generally in 3, 5 or 7 years. All loans are made in accordance with the Bank's appraisal policy with the ratio of the loan principal to the value of collateral as established by independent appraisal not exceeding 80%, unless the borrower has private mortgage insurance. The Bank expects that these loan-to-value ratios will be sufficient to compensate for fluctuations in real estate market value and to minimize losses that could result from a downturn in the residential real estate market.

Commercial and Industrial Loans. We target small- to medium-sized commercial and industrial businesses. The terms of these loans vary by purpose and by type of underlying collateral, if any. The commercial loans are primarily underwritten on the basis of the borrower's ability to service the loan from cash flow. The Bank typically makes equipment loans for a term of seven years or less at fixed or variable rates, with the loan fully amortized over the term. Loans to support working capital typically have terms not exceeding one year and will usually be secured by accounts receivable, inventory or personal guarantees of the principals of the business. For loans secured by accounts receivable or inventory, principal is repaid as the assets securing the loan are converted into cash, and for loans secured with other types of collateral, principal is amortized during the term of the loan with remaining principal due at maturity. The quality of the commercial borrower's management and its ability both to properly evaluate changes in the supply and demand characteristics affecting its markets for products and services and to effectively respond to such changes are significant factors in a commercial borrower's creditworthiness.

The Bank also offers a number of Small Business Administration (SBA) guaranteed loan programs to assist small businesses. The 504 program provides small businesses needing brick and mortar financing with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization. The 7(a) program helps start-up and existing small businesses obtain financing when they might not be eligible for business loans through traditional lending channels.

Edgar Filing: Solera National Bancorp, Inc. - Form 10-K

Table of Contents

Consumer Loans. The Bank offers a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans. The loan officer reviews the borrower's past credit history, past income level, debt history and cash flow to determine the impact of all these factors on the ability of the borrower to make future payments as agreed. The principal competitors for consumer loans are the established banks, credit unions and finance companies in the Bank's market.

Composition of portfolio - The following table sets forth the composition of the Bank's loan portfolio according to the loan's purpose:

(\$ in thousands)	December 31,	
	2011	2010
Commercial real estate	\$ 37,862	\$ 38,504
Commercial and industrial	5,971	10,092
Residential real estate	10,460	7,867
Construction and development	1,307	1,894
Consumer	45	540
GROSS LOANS	55,645	58,897
Net deferred (fees) / expenses	(77)	(75)
Allowance for loan and lease losses	(1,067)	(1,175)
LOANS, NET	\$ 54,501	\$ 57,647

Average loan size of portfolio - The following table sets forth the number of loans of the Bank, and the average size of each loan, within each category of the loan portfolio.

(\$ in thousands)	2011		December 31,		2010	
	# of Loans	Average Loan Size	# of Loans	Average Loan Size	# of Loans	Average Loan Size
Commercial real estate	63	\$ 601	67	\$ 575		
Commercial and industrial	43	139	47	214		
Residential real estate	36	291	32	246		
Construction and development	4	327	4	473		
Consumer	25	2	28	19		
GROSS LOANS	171	\$ 325	178	\$ 331		

Re-pricing of portfolio - The following table summarizes the maturities for fixed rate loans and the re-pricing intervals for adjustable rate loans. A portion of the adjustable rate loans have floors which will keep those loans from re-pricing until interest rates move above those floors.

(\$ in thousands)	December 31, 2011			December 31, 2010		
	Fixed Rate	Adjustable Rate(1)	Total	Fixed Rate	Adjustable Rate(2)	Total
< 3 months	\$ 93	\$ 13,798	\$ 13,891	\$ 1,064	\$ 16,408	\$ 17,472
> 3 to 12 months	2,655		2,655	5,644		5,644
> 1 to 3 years	10,760	10,382	21,142	2,132	694	2,826
> 3 to 5 years	3,903	8,438	12,341	10,817	16,927	27,744

Edgar Filing: Solera National Bancorp, Inc. - Form 10-K

over 5 years		5,616			5,616	4,831		380		5,211		
Gross Loans Receivable	\$	23,027	\$	32,618	\$	55,645	\$	24,488	\$	34,409	\$	58,897

(1) Of the \$32.6 million adjustable rate loans, \$31.0 million mature after December 31, 2012.

(2) Of the \$34.4 million adjustable rate loans, \$29.2 million mature after December 31, 2011.

Table of Contents

Contractual maturity of portfolio - The following tables set forth information at December 31, 2011 and 2010, regarding the dollar amount of loans maturing in the Bank's portfolio based on the contractual terms to maturity. The table does not give effect to potential prepayments. Loans that have no stated schedule of repayment or maturity are reported as due in one year or less.

(\$ in thousands)	December 31, 2011					Total Loans
	<1 Year	1 - 5 Years	5 - 15 Years	Over 15 Years		
Commercial real estate	\$ 805	\$ 13,064	\$ 23,993	\$		\$ 37,862
Commercial and industrial	2,422	2,787	762			5,971
Residential real estate		2,461	1,200	6,799		10,460
Construction and development	1,150	157				1,307
Consumer	11	24		10		45
Gross Loans Receivable	\$ 4,388	\$ 18,493	\$ 25,955	\$ 6,809	\$	\$ 55,645

(\$ in thousands)	December 31, 2010					Total Loans
	<1 Year	1 - 5 Years	5 - 15 Years	Over 15 Years		
Commercial real estate	\$ 4,098	\$ 10,676	\$ 23,730	\$		\$ 38,504
Commercial and industrial	3,843	4,484	1,765			10,092
Residential real estate		342		7,525		7,867
Construction and development	1,894					1,894
Consumer	365	29		146		540
Gross Loans Receivable	\$ 10,200	\$ 15,531	\$ 25,495	\$ 7,671	\$	\$ 58,897

Asset Quality

General Management, along with the Bank's Directors' credit committee, consisting of the Bank's President & Chief Executive Officer, the Bank's Chief Credit Officer, and two independent board members, approve loans above established levels, monitor the credit quality of the Bank's assets, review classified and other identified loans and review management's recommendation for the proper level of allowances to allocate against the Bank's loan portfolio, in each case subject to guidelines approved by the Bank's Board of Directors.

Loan Delinquencies If a borrower fails to make a required payment on a loan, the Bank will attempt to cure the deficiency by contacting the borrower and seeking payment. Contact is generally made following the fifth day after a payment is due, at which time a late payment fee is assessed. In most cases, delinquencies are cured promptly. While the Bank generally prefers to work with borrowers to resolve such problems, if a payment becomes 60 - 90 days delinquent, the Bank may institute foreclosure or other remedies, as necessary, to minimize any potential loss.

Non-performing Assets At December 31, 2011 and 2010, the Bank had \$2.4 million and \$4.0 million, respectively, in non-performing assets. Non-performing assets are defined as non-performing loans and real estate acquired by foreclosure or deed-in-lieu thereof. Non-performing loans are defined as nonaccrual loans, loans 90 days or more past due but still accruing interest and loans that have been restructured resulting in a reduction or deferral of interest or principal. A loan is impaired when, based on current information and events, it is probable the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Troubled debt restructurings (TDRs) are defined as loans where the borrower is experiencing financial difficulties and for which the Bank has agreed to modify by accepting repayment terms below current market terms such as, but not limited to, the rate of interest charged, amortization of principal longer than normal for the type of collateral or acceptance of a different type or lower amount of collateral than typically accepted. Loans are placed on nonaccrual status when, in

Edgar Filing: Solera National Bancorp, Inc. - Form 10-K

the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When any such loan is placed on nonaccrual status, previously accrued but unpaid interest will be deducted from current period interest income. There were \$610,000 and \$1.8 million of nonaccrual loans at December 31, 2011 and 2010, respectively.

Table of Contents

The following table summarizes information regarding non-performing assets:

(\$ in thousands)	2011	December 31,		2010
Nonaccrual loans and leases	\$	610	\$	1,783
Other impaired loans				337
Total non-performing loans		610		2,120
Other real estate owned		1,776		1,838
Total non-performing assets	\$	2,386	\$	3,958
Nonperforming loans	\$	610	\$	2,120
Allocated allowance for loan and lease losses to non-performing loans				