

Solera National Bancorp, Inc.
Form 10-Q
May 12, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

**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 incorporation or organization)

02-0774841
(IRS Employer Identification No.)

319 S. Sheridan Blvd.

Lakewood, CO 80226

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

303-209-8600

(Address and telephone number of principal executive offices and principal place of business)

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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date: As of May 11, 2009, 2,553,671 shares of the registrant's common stock, \$0.01 par value, were issued and outstanding.

Table of Contents

FORM 10-Q

SOLERA NATIONAL BANCORP, INC.

INDEX

	PAGE
<u>INTRODUCTORY NOTE</u>	3
<u>PART I FINANCIAL INFORMATION</u>	5
<u>ITEM 1. FINANCIAL STATEMENTS (Unaudited)</u>	5
<u>Balance Sheets as of March 31, 2009 and December 31, 2008</u>	5
<u>Statements of Operations for the Three Months Ended March 31, 2009 and 2008</u>	6
<u>Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2009 and 2008</u>	7
<u>Statements of Cash Flows for the Three Months Ended March 31, 2009 and 2008</u>	8
<u>Statements of Cash Flows for the Three Months Ended March 31, 2009 and 2008, (continued)</u>	9
<u>UNAUDITED CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	10
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	18
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	28
<u>ITEM 4(T). CONTROLS AND PROCEDURES</u>	28
<u>PART II OTHER INFORMATION</u>	29
<u>ITEM 1. LEGAL PROCEEDINGS</u>	29
<u>ITEM 1A. RISK FACTORS</u>	29
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	29
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	29
<u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	29
<u>ITEM 5. OTHER INFORMATION</u>	29
<u>ITEM 6. EXHIBITS</u>	29
<u>SIGNATURES</u>	30

EXHIBIT INDEX

Table of Contents

INTRODUCTORY NOTE

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 about Solera National Bancorp, Inc. (the Company) and our 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 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 quarterly 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 very limited operating history upon which to base an estimate of its future financial performance;
- the Company expects to incur losses during its initial years of operations;
- Solera National Bank's failure to implement its business strategies may adversely affect the Company's financial performance;
- the departures of key personnel or directors may impair Solera National Bank's operations;
- Solera National Bank's legal lending limits may impair its ability to attract borrowers;

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

- an economic downturn, especially one affecting Solera National Bank's primary service areas, may have an adverse effect on its financial performance;
- the Company could be negatively affected by changes in interest rates;
- the Company is subject to extensive regulatory oversight, which could restrain our growth and profitability;
- the Company may not be able to raise additional capital on terms favorable to it;
- the liquidity of the Company common stock will be affected by its limited trading market;
- monetary policy and other economic factors could adversely affect the Company's profitability;
- the Company's certificate of incorporation and bylaws, and the employment agreements of our Executive Officers, contain provisions that could make a takeover more difficult;
- management of Solera National Bank may be unable to adequately measure and limit credit risk associated with Solera National Bank's loan portfolio, which would affect the Company's profitability;

Table of Contents

- government regulation may have an adverse effect on the Company's profitability and growth;
- the Federal Deposit Insurance Corporation, (FDIC), has increased deposit insurance premiums to rebuild and maintain the federal deposit insurance fund, which could have a material affect on earnings;
- the Company cannot predict the effect of the recently enacted federal rescue plan;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds, and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally, and internationally, together with such competitors offering banking products and services by mail, telephone, computer, and the Internet; and
- management's ability to manage these and other risks.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in Item 1A of the Company's 2008 Annual Report filed on Form 10-K with the SEC, which is available on the SEC's website at www.sec.gov. All forward-looking statements are qualified in their entirety by this cautionary statement, and the Company undertakes no obligation to revise or update this Quarterly Report on Form 10-Q to reflect events or circumstances after the date hereof. New factors emerge from time to time, and it is not possible for us to predict which factors, if any, will arise. In addition, the Company cannot assess the impact of each factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Solera National Bancorp, Inc.****Balance Sheets as of March 31, 2009 and December 31, 2008****(Unaudited)**

	March 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	\$ 1,576,637	\$ 1,436,241
Federal funds sold		965,000
Total cash and cash equivalents	1,576,637	2,401,241
Investment securities, available-for-sale	52,484,096	41,557,461
Gross loans	31,065,581	21,412,957
Net deferred (fees)/expenses	(118,276)	(56,747)
Allowance for loan losses	(385,500)	(268,000)
Net loans	30,561,805	21,088,210
Federal Home Loan Bank (FHLB) and Federal Reserve Bank stocks	1,069,350	1,079,550
Premises and equipment, net	977,510	1,011,579
Interest receivable	467,687	382,761
Other assets	244,496	222,038
Total assets	\$ 87,381,581	\$ 67,742,840
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest-bearing demand	\$ 5,170,823	\$ 3,910,236
Interest-bearing demand	4,372,237	2,603,923
Savings and money market	8,675,520	6,873,260
Time deposits	37,269,529	24,274,807
Total deposits	55,488,109	37,662,226
Federal funds purchased and securities sold under agreements to repurchase	1,181,634	398,162
Accrued interest payable	109,130	80,274
Accounts payable and other liabilities	1,798,803	393,498
Federal Home Loan Bank advances	10,000,000	10,000,000
Deferred rent liability	67,819	60,505
Capital lease liability	147,082	156,388
Total liabilities	\$ 68,792,577	\$ 48,751,053

COMMITMENTS AND CONTINGENCIES (see Note 10)

STOCKHOLDERS EQUITY

Common stock, \$0.01 par value; 5,000,000 shares authorized; 2,553,671 shares issued and outstanding at March 31, 2009 and December 31, 2008	\$	25,536	\$	25,536
Additional paid-in capital		25,607,069		25,558,098
Accumulated deficit		(7,222,163)		(6,739,883)
Accumulated other comprehensive income		178,562		148,036
Total stockholders equity	\$	18,589,004	\$	18,991,787
Total liabilities and stockholders equity	\$	87,381,581	\$	67,742,840

See Notes to Financial Statements.

Table of Contents**Solera National Bancorp, Inc.****Statements of Operations for the Three Months Ended March 31, 2009 and 2008****(Unaudited)**

	For the Three Months Ended March 31,	
	2009	2008
Interest income:		
Interest and fees on loans	\$ 313,751	\$ 87,162
Interest on federal funds sold	987	37,175
Interest on investment securities	598,219	230,802
Other interest income		5,912
Dividends on FHLB and Federal Reserve Bank stocks	10,093	7,875
Total interest income	923,050	368,926
Interest expense:		
Deposits	294,076	87,949
Federal Home Loan Bank advances	92,154	
Federal funds purchased and securities sold under agreements to repurchase	3,191	
Other borrowings	3,571	4,396
Total interest expense	392,992	92,345
Net interest income	530,058	276,581
Provision for loan loss	117,500	37,066
Net interest income after provision for loan loss	412,558	239,515
Noninterest income:		
Service charges and fees	68,902	5,610
Sublease income	4,108	3,750
Gain on sale of securities	76,935	39,620
Total noninterest income	149,945	48,980
Noninterest expense:		
Salaries and employee benefits	611,602	504,069
Occupancy	136,019	117,767
Professional fees	116,426	72,035
Other general and administrative	180,736	167,214
Total noninterest expense	1,044,783	861,085
Income taxes		
Net loss	\$ (482,280)	\$ (572,590)
Basic earnings (loss) per share	(0.19)	(0.22)
Diluted earnings (loss) per share	(0.19)	(0.22)
Weighted-average common shares		
Basic	2,553,671	2,553,671
Diluted	2,553,671	2,553,671

See Notes to Financial Statements.

Table of Contents

Solera National Bancorp, Inc.

Statements of Changes in Stockholders Equity for the Three Months Ended March 31, 2009 and 2008

(Unaudited)

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2007	2,553,671	\$ 25,536	\$ 25,347,342	\$ (4,525,955)	\$ 2,412	\$ 20,849,335
Stock-based compensation			62,396			62,396
Comprehensive income (loss):						
Net loss				(572,590)		(572,590)
Net change in unrealized gains on investment securities available-for-sale					161,069	161,069
Less: reclassification adjustment for net gains included in income					(39,620)	(39,620)
Total comprehensive income (loss)						(451,141)
Balance at March 31, 2008	2,553,671	\$ 25,536	\$ 25,409,738	\$ (5,098,545)	\$ 123,861	\$ 20,460,590
Balance at December 31, 2008	2,553,671	\$ 25,536	\$ 25,558,098	\$ (6,739,883)	\$ 148,036	\$ 18,991,787
Stock-based compensation			48,971			48,971
Comprehensive income (loss):						
Net loss				(482,280)		(482,280)
Net change in unrealized gains on investment securities available-for-sale					107,461	107,461
Less: reclassification adjustment for net gains included in income					(76,935)	(76,935)
Total comprehensive income (loss)						(451,754)
Balance at March 31, 2009	2,553,671	\$ 25,536	\$ 25,607,069	\$ (7,222,163)	\$ 178,562	\$ 18,589,004

See Notes to Financial Statements.

Table of Contents

Solera National Bancorp, Inc.

Statements of Cash Flows for the Three Months Ended March 31, 2009 and 2008

(Unaudited)

	For the Three Months Ended March 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	\$ (482,280)	\$ (572,590)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	36,932	26,724
Provision for loan losses	117,500	37,066
Net amortization of deferred loan fees/expenses	62,751	(62)
Net amortization of premiums on investment securities	20,208	9,808
Gain on sale of investment securities	(76,935)	(39,620)
Federal Home Loan Bank stock dividend	(3,200)	
Recognition of stock-based compensation on stock options	48,971	62,396
Changes in operating assets and liabilities:		
Interest receivable	(84,926)	(70,755)
Other assets	(22,458)	168,350
Accrued interest payable	28,856	14,596
Accounts payable and other liabilities	395,807	(32,061)
Deferred rent liability	7,314	10,011
Net cash provided by (used in) operating activities	\$ 48,540	\$ (386,137)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities, available-for-sale	\$ (20,631,082)	\$ (12,042,723)
Proceeds from sales of investment securities, available-for-sale	6,861,722	2,488,676
Proceeds from maturities/calls/pay downs of investment securities, available-for-sale	3,939,476	1,965,538
Originated loans, net of pay downs	(9,653,846)	(3,908,528)
Purchase of premises and equipment	(2,863)	(6,098)
Proceeds from redemption of Federal Reserve Bank stock	13,400	
Purchase of interest-bearing deposits with banks		(691,442)
Net cash used in investing activities	\$ (19,473,193)	\$ (12,194,577)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	\$ 17,825,883	\$ 10,720,013
Net increase in federal funds purchased and securities sold under agreements to repurchase	783,472	
Principal payments on capital lease	(9,306)	(8,482)
Proceeds from subscriptions receivable		1,600,000
Net cash provided by financing activities	\$ 18,600,049	\$ 12,311,531
Net decrease in cash and cash equivalents	\$ (824,604)	\$ (269,183)
CASH AND CASH EQUIVALENTS		
Beginning of period	2,401,241	5,306,126
End of period	\$ 1,576,637	\$ 5,036,943

See Notes to Financial Statements.

Table of Contents

Solera National Bancorp, Inc.

Statements of Cash Flows for the Three Months Ended March 31, 2009 and 2008, (continued)

(Unaudited)

	For the Three Months Ended March 31,	
	2009	2008
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 364,136	\$ 77,750
Non-cash investing transactions:		
Unrealized gain on investment securities available-for-sale	\$ 30,526	\$ 121,449
Available-for-sale investment securities purchased, but not yet settled	\$ 1,009,498	\$

See Notes to Financial Statements.

Table of Contents

SOLERA NATIONAL BANCORP, INC.

UNAUDITED CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ORGANIZATION

Solera National Bancorp, Inc. (the Company), is a Delaware corporation that was incorporated in 2006 to organize and serve as the holding company for Solera National Bank (the Bank), a national bank that opened for business on September 10, 2007. Solera National Bank is a full-service community, commercial bank headquartered in Lakewood, Colorado serving the Denver metropolitan area.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position of the Company as of March 31, 2009, and the results of its operations for the three months ended March 31, 2009 and 2008. Cash flows are presented for the three months ended March 31, 2009 and 2008. Certain reclassifications have been made to the consolidated financial statements and related notes of prior periods to conform to the current presentation. These reclassifications had no impact on stockholders' equity or net loss for the periods. Additionally, certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to rules and regulations of the U.S. Securities and Exchange Commission. The Company believes that the disclosures in the unaudited condensed consolidated financial statements are adequate to make the information presented not misleading. However, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2008.

The Company received approval as a bank in organization in the first quarter of 2007, conducted an initial closing of its common stock offering and commenced banking operations during the third quarter of 2007. Successful completion of the Company's development program and, ultimately, the attainment of profitable operations are dependent on future events, including the successful execution of the Company's business plan and achieving a level of revenue adequate to support the Company's cost structure.

Critical Accounting Policies

Income taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment.

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

Securities available-for-sale: Securities available-for-sale are reported at fair value utilizing Level 2 inputs (see Note 11). For these securities, the Company obtains fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds terms and conditions, among other things.

Securities are also evaluated for impairment utilizing criteria such as the magnitude and duration of the decline and the intent and ability of the Company to retain the security for a period of time sufficient to allow for recovery of the value. If a decline in value below amortized cost is determined to be other-than-temporary, which does not necessarily indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not favorable, the value of the security is reduced and a charge to earnings is recognized.

Table of Contents

Stock-based compensation: The Company accounts for stock-based compensation to employees as outlined in FASB Statement No. 123(R), *Share-Based Payment*, (SFAS 123R). The cost of employee services received in exchange for an award of equity instruments is based on the grant-date fair value of the award.

Provision for loan losses: The allowance for loan losses represents the Company's recognition of the risks of extending credit and its evaluation of the loan portfolio. The allowance for loan losses is maintained at a level considered adequate to provide for probable loan losses based on management's assessment of various factors affecting the loan portfolio, including a review of problem loans, business conditions, historical loss experience, evaluation of the quality of the underlying collateral, and holding and disposal costs. The allowance for loan losses is increased by provisions charged to expense and reduced by loans charged off, net of recoveries. Loan losses are charged against the allowance for loan losses when management believes the loan balance is uncollectible.

The Company has established a formal process for determining an adequate allowance for loan losses. The allowance for loan losses calculation process has two components. The first component represents the allowance for loan losses for impaired loans computed in accordance with FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* (SFAS 114 Component), as amended by FASB Statement No. 118, *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures - an amendment of FASB Statement No. 114*. To determine the SFAS 114 Component, collateral dependent impaired loans are evaluated using internal analyses as well as third-party information, such as appraisals. If an impaired loan is unsecured, it is evaluated using a discounted cash flow of the payments expected over the life of the loan using the loan's effective interest rate and giving consideration to currently existing factors that would impact the amount or timing of the cash flows. The second component is the allowance for loan losses calculated under FASB Statement No. 5, *Accounting for Contingencies* (SFAS 5 Component), and represents the estimated probable losses inherent within the portfolio due to uncertainties in economic conditions, delays in obtaining information about a borrower's financial condition, delinquent loans that have not been determined to be impaired, results of internal and external loan reviews, and other factors. This component of the allowance for loan losses is calculated by assigning a probable loss range, to each identified risk factor. The recorded allowance for loan losses is the aggregate of the SFAS 114 Component and SFAS 5 Component.

Recently Issued Accounting Pronouncements

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2/124-2). FSP FAS 115-2/124-2 requires entities to separate an other-than-temporary impairment of a debt security into two components when there are credit related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the other-than-temporary impairment related to a credit loss is recognized in earnings, and the amount of the other-than-temporary impairment related to other factors is recorded in other comprehensive loss. FSP FAS 115-2/124-2 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has elected to adopt FSP FAS 115-2/124-2 effective for the quarter ending June 30, 2009. The Company is currently evaluating the impact that the adoption of this Statement will have on its financial position and results of operations.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly* (FSP FAS 157-4). Under FSP FAS 157-4, if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly, the entity shall place little, if any weight on that transaction price as an indicator of fair value. FSP FAS 157-4 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has elected to adopt FSP FAS 157 effective for the quarter ending June 30, 2009. The Company is currently

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

evaluating the impact that the adoption of this Statement will have on its financial position and results of operations.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 require disclosures about fair value

Table of Contents

of financial instruments in interim and annual financial statements. FSP FAS 107-1 and APB 28-1 are effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has elected to adopt FSP FAS 107-1 and APB 28-1 effective for the quarter ending June 30, 2009. The adoption will not have an impact on the Company's financial position and results of operations.

NOTE 3 INVESTMENTS

The amortized costs and estimated fair values of investment securities as of March 31, 2009 and December 31, 2008 are as follows:

	March 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. government agencies	\$ 4,705,050	\$ 77,958	\$	\$ 4,783,008
Corporate	3,992,412	3,046	(178,490)	3,816,968
State and municipal	15,549,842	61,906	(243,600)	15,368,148
Mortgage-backed securities	28,058,230	485,313	(27,571)	28,515,972
Total securities available-for-sale	\$ 52,305,534	\$ 628,223	\$ (449,661)	\$ 52,484,096

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. government agencies	\$ 5,700,100	\$ 46,500	\$ (866)	\$ 5,745,734
Corporate	1,516,323	3,475	(16,236)	1,503,562
State and municipal	3,043,274	2,109	(115,545)	2,929,838
Mortgage-backed securities	31,149,728	345,360	(116,761)	31,378,327
Total securities available-for-sale	\$ 41,409,425	\$ 397,444	\$ (249,408)	\$ 41,557,461

Management evaluates investment securities for other-than-temporary impairment taking into consideration the extent and length of time the fair value has been less than cost, the financial condition of the issuer and whether the Company has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in estimated fair value. All individual securities that have been in a continuous unrealized loss position for 12 months or longer at March 31, 2009, have fluctuated in value since their purchase dates as a result of changes in market interest rates and not as a result of the underlying issuer's ability to repay. Management has reviewed the credit rating for all securities in a continuous unrealized loss position for 12 months or longer and determined that all securities are highly rated. Additionally, the Company has the ability and intent to hold these securities until their fair value recovers to their cost, which may be until maturity. Accordingly, as of March 31, 2009, no declines in value are deemed to be other than temporary.

The Company recorded a net unrealized gain in the investment portfolio of \$179,000 at March 31, 2009. This was an improvement over the \$148,000 unrealized gain at December 31, 2008.

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

The Company sold thirteen securities during the first quarter 2009 for a net realized gain of \$77,000 and the Company sold six securities during the first quarter 2008 for a realized gain of \$40,000.

Securities with carrying values of \$10.3 million at March 31, 2009 and \$15.4 million at December 31, 2008, were pledged as collateral to secure borrowings from the FHLB, public deposits and for other purposes as required or permitted by law.

Table of Contents**NOTE 4 LOANS**

Loans consisted of the following:

	March 31, 2009	December 31, 2008
Real estate commercial	\$ 13,613,557	\$ 7,478,806
Real estate residential	5,224,006	5,043,352
Construction and land development	6,220,904	3,848,555
Commercial and industrial	5,043,029	4,083,633
Consumer	964,085	958,611
Gross loans	31,065,581	21,412,957
Less: Allowance for loan losses	(385,500)	(268,000)
Deferred loan (fees) / expenses, net	(118,276)	(56,747)
Loans, net	\$ 30,561,805	\$ 21,088,210

During the first three months of 2009 and all of 2008, no loans were impaired, transferred to foreclosed properties or past due more than 90 days.

In the ordinary course of business, and only if consistent with permissible exceptions to Section 402 of the Sarbanes- Oxley Act of 2002, the Bank may make loans to directors, executive officers, principal stockholders (holders of more than five percent of the outstanding common shares) and the businesses with which they are associated. In the Company's opinion, all loans and loan commitments to such parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons.

There were approximately \$2.6 million in loans receivable from related parties at March 31, 2009 and December 31, 2008.

NOTE 5 ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses for the first three months of 2009 and 2008 is summarized as follows:

	Quarter Ended	
	March 31, 2009	March 31, 2008
Balance, beginning of period	\$ 268,000	\$ 47,396
Loans charged off		
Recoveries on loans previously charged off		
Provision for loan losses	117,500	37,066
Balance, end of period	\$ 385,500	\$ 84,462

NOTE 6 DEPOSITS

Deposits are summarized as follows:

	March 31, 2009		December 31, 2008	
	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand	\$ 5,170,823	9%	\$ 3,910,236	10%
Interest-bearing demand	4,372,237	8	2,603,923	7
Money market accounts	4,745,634	9	6,488,427	17
Savings accounts	3,929,886	7	384,833	1
Certificates of deposit, less than \$100,000	14,958,168	27	6,521,937	18
Certificates of deposit, greater than \$100,000	22,311,361	40	17,752,870	47
Total deposits	\$ 55,488,109	100%	\$ 37,662,226	100%

Table of Contents

In the ordinary course of business, certain officers, directors, stockholders, and employees of the Bank have deposits with the Bank. In the Bank's opinion, all deposit relationships with such parties are made on substantially the same terms including interest rates and maturities, as those prevailing at the time for comparable transactions with other persons. The balance of related party deposits at March 31, 2009 and December 31, 2008 was approximately \$1.8 million and \$2.7 million, respectively.

NOTE 7 STOCK-BASED COMPENSATION

The Company's 2007 Stock Incentive Plan (the "Plan") was approved by the Company's Board of Directors (the "Board") with an effective date of September 10, 2007 and was approved by the Company's stockholders at the annual meeting held on June 17, 2008. Under the terms of the Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also officers or employees, may only be granted nonqualified stock options. The Board reserved 510,734 shares of common stock for issuance under the Plan. The Plan provides for options to purchase shares of common stock at a price not less than 100% of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant and generally vest over four years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Company recognized stock-based compensation cost of approximately \$49,000 and \$62,000 during the three months ended March 31, 2009 and 2008, respectively. No tax benefit related to stock-based compensation will be recognized until the Company is profitable.

The Company accounts for its stock-based compensation under the provisions of SFAS 123R. The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The Company granted 13,000 options during the first quarter 2009 as incentive compensation to two Bank officers. No options were granted during the first quarter of 2008.

During the three months ended March 31, 2009, no options were forfeited; however, 16,499 vested options expired unexercised. No options were exercised during the three months ended March 31, 2009. During this same period, the Company recognized expense for approximately 23,000 options, representing a pro-rata amount of the options earned during the first quarter 2009 that are expected to vest. As of March 31, 2009, there was approximately \$627,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 2.6 years.

The following is a summary of the Company's outstanding stock options at March 31, 2009:

	Options		Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2009	360,255	\$	2.71
Granted	13,000		1.43
Exercised			
Forfeited			
Expired	(16,499)		2.75
Outstanding at March 31, 2009	356,756	\$	2.66

Table of Contents**NOTE 8 NONINTEREST EXPENSE**

The following table details the items comprising other general and administrative expenses:

	Three Months Ended	
	March 31,	
	2009	2008
Marketing and promotions	\$ 20,569	\$ 67,159
Data processing	66,290	46,909
Regulatory and reporting fees	34,324	13,756
Printing, stationery and supplies	6,866	9,436
Telephone/communication	10,849	7,183
Travel and entertainment	6,675	4,642
Postage and shipping	6,154	1,952
Training and education	2,261	2,485
Insurance	4,803	4,745
Dues and memberships	10,262	5,050
Miscellaneous	11,683	3,897
Total	\$ 180,736	\$ 167,214

NOTE 9 INCOME TAXES

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset account recognized in the accompanying consolidated statements of financial condition:

	March 31, 2009	December 31, 2008
Deferred tax assets:		
Start-up and organizational expenses	\$ 1,185,571	\$ 1,207,526
Net operating loss carryforward	1,236,532	1,096,123
Allowance for loan losses	119,622	76,082
Non-qualified stock options	19,117	16,045
Other	46,928	40,651
Total deferred tax assets	2,607,770	2,436,427
Deferred tax liabilities:		
Net unrealized gain on securities available-for-sale	(66,168)	(54,856)
Federal Home Loan Bank stock dividend	(5,447)	(4,261)
Tax over book depreciation	(24,657)	(23,814)
Total deferred tax liabilities	(96,272)	(82,931)
Net deferred tax assets	2,511,498	2,353,496
Valuation allowance	(2,511,498)	(2,353,496)
Net deferred taxes	\$	\$

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

The Company has provided a 100% valuation allowance for its net deferred tax asset due to uncertainty of realization during the carryforward period. As of March 31, 2009, the Company has net operating loss carryforwards of approximately \$3.3 million for federal income tax purposes. Federal net operating loss carryforwards, to the extent not used, will expire beginning in 2027.

Table of Contents

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate of 35% to pretax income from continuing operations for the three months ended March 31, 2009 and the twelve months ended December 31, 2008 due to the following:

	March 31, 2009	December 31, 2008
Computed expected tax benefit	\$ (168,798)	\$ (774,874)
Change in income taxes resulting from:		
Change in valuation allowance	158,002	698,020
Other	10,796	76,854
Income tax provision	\$	\$

NOTE 10 COMMITMENTS AND CONTINGENCIES

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At March 31, 2009 and December 31, 2008 the following financial instruments were outstanding whose contract amounts represent credit risk:

	March 31, 2009	December 31, 2008
Financial instruments whose contractual amounts represent credit risk:		
Commitments to extend credit	\$ 9,585,718	\$ 6,715,658
Letters of credit		
Total commitments	\$ 9,585,718	\$ 6,715,658

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the commitments do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income producing commercial properties.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

NOTE 11 FAIR VALUE MEASUREMENTS (SFAS 157 DISCLOSURE)

The Company determines the fair market values of its financial instruments based on the fair value hierarchy established in SFAS No. 157, *Fair Value Measurements* (SFAS 157), which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs, as follows, that may be used to measure fair value.

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or model-based valuation techniques for which all significant assumptions are observable in the market.

Table of Contents

Level 3 valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Company carries its available-for-sale securities at fair value. Fair value measurement is obtained from independent pricing services which utilize observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds terms and conditions, among other things. As of March 31, 2009 and December 31, 2008, all of the Company's available-for-sale securities were valued using Level 2 inputs.

NOTE 12 SUBSEQUENT EVENTS

Effective April 28, 2009, the Company entered into a separation agreement with an employee who also served as a director for both the Company and the Bank. The Company will incur a one-time charge of \$53,333 associated with this separation agreement during the second quarter of 2009.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis presents the Company's consolidated financial condition as of March 31, 2009 and results of operations for the three months ended March 31, 2009. The discussion should be read in conjunction with the financial statements and the notes related thereto which appear elsewhere in this Quarterly Report on Form 10-Q.

EXECUTIVE OVERVIEW

We are a Delaware corporation that was incorporated on January 12, 2006 to organize and serve as the holding company for Solera National Bank, a national bank that opened for business on September 10, 2007. Solera National Bank is a full-service commercial bank headquartered in Lakewood, Colorado serving the Denver metropolitan area. Our main banking office is located at 319 S. Sheridan Blvd., Lakewood, Colorado 80226. Our telephone number is (303) 209-8600.

We offer a broad range of commercial and consumer banking services to small and medium-sized businesses, licensed professionals and individuals who are particularly responsive to the personalized service that Solera National Bank provides to its customers. We believe that local ownership and control allows the Bank to serve customers more efficiently and effectively. Solera National Bank competes on the basis of providing a unique and personalized banking experience combined with a full range of services, customized and tailored to fit the individual needs of its clients. Solera National Bank serves the entire market area and, in addition, has a special niche focus on the local Hispanic population due to the significant growth of this demographic.

Recent Economic Events

The global and U.S. economies continue to experience significantly reduced business activity during the first quarter of 2009. Real Gross Domestic Product (GDP) — the output of goods and services produced by labor and property located in the United States — decreased at an annual rate of 6.1% in the first quarter of 2009, according to advance estimates released by the Bureau of Economic Analysis. In the fourth quarter of 2008, real GDP decreased at an annual rate of 6.3%. Our lending operations are entirely in the State of Colorado which has not been immune to the weakened economy. Unemployment reached 7.2% by the end of the first quarter. Most predictions are for increasing unemployment throughout 2009. According to a recent Manpower survey, Denver metropolitan area employers planning to hire in 2009 declined to 15% from 32% in the fourth quarter of 2008.

Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions. These write-downs, initially of mortgage-backed securities but spreading to other areas of the credit market, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions or, in some cases, to fail. Many banks, such as ours, that were not underwriting subprime residential real estate loans have not experienced the significant losses in their loan and investment portfolios or liquidity concerns that larger institutions have experienced.

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

To combat the severe recession, the federal government and the Federal Reserve have been extremely active in setting monetary policy. The Federal Reserve has lowered both the federal funds benchmark rate and the discount rate by 400 basis points in 2008, and at the end of the first quarter of 2009, the federal funds target rate was approximately 0% and the discount rate was 0.50%.

We are not aware of any known trends, events or uncertainties particular to our Company that will have or are reasonably likely to have a material adverse effect on the following:

Investment Securities: We do not hold mortgage-backed securities backed by subprime mortgages in our investment portfolio or collateralized debt obligations backed directly or indirectly by such mortgage-backed securities or other low-quality loans. Nor do we own corporate bonds and other debt instruments whose values have been impacted by the deterioration of the financial markets. We do not hold any preferred or common stock of Fannie Mae or Freddie Mac.

Table of Contents

Loans Credit Quality: We have not engaged in the origination of subprime mortgage loans or in subprime lending. We have not engaged in real estate development lending except in accordance with our rigorous underwriting standards involving substantial collateral protection. To date, we have not experienced any deterioration in credit quality. As of March 31, 2009 we have no past due loans and no nonaccrual loans.

Liquidity: We have not experienced any liquidity shortfalls and we have determined that we possess adequate sources of liquidity for all of our reasonably foreseeable needs. We recognize that liquidity is of heightened concern to all banks given the recent economic events. However, we are not aware of any regulatory or investor concerns regarding our capital, asset quality or funding sources.

Comparative Results of Operations for the Three Months Ended March 31, 2009 and 2008

The following discussion focuses on the Company's financial condition and results of operations for the three months ended March 31, 2009 compared to the financial condition and results of operations for the three months ended March 31, 2008. The Company's principal operations for each of these periods consisted of the operations of Solera National Bank, which opened for business September 10, 2007.

As of March 31, 2009, the Company had total assets of \$87.4 million, an increase of \$19.6 million, or 29%, from December 31, 2008. Net loans increased \$9.5 million, or 45%, from \$21.1 million at December 31, 2008 to \$30.6 million at March 31, 2009. Similarly, the Company's total deposits grew \$17.8 million, or 47%, from \$37.7 million at December 31, 2008 to \$55.5 million as of March 31, 2009. This growth was achieved as a result of our successful business development program.

The following table presents, for the periods indicated, average assets, liabilities and stockholders' equity, as well as the net interest income from average interest-earning assets and the resultant annualized yields expressed in percentages.

Table of Contents**Table 1**

	Three Months Ended March 31, 2009			Three Months Ended March 31, 2008		
	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
Assets:						
Interest-earning assets:						
Gross loans, net of unearned fees	\$ 24,599,433	\$ 313,751	5.17%	\$ 5,336,136	\$ 87,162	6.57%
Investment securities**	46,191,653	598,219	5.25%	18,084,544	230,802	5.13%
FHLB and Federal Reserve						
Bank Stocks	1,073,482	10,093	3.81%	525,000	7,875	6.03%
Federal funds sold	1,423,900	987	0.28%	4,351,538	37,175	3.44%
Interest-bearing deposits in banks			%	438,653	5,912	5.42%
Total interest-earning assets	73,288,468	\$ 923,050	5.11%	28,735,871	\$ 368,926	5.16%
Noninterest-earning assets	2,100,520			1,907,162		
Total assets	\$ 75,388,988			\$ 30,643,033		
Liabilities and Stockholders Equity:						
Interest-bearing liabilities:						
Money market and savings deposits	\$ 6,928,227	\$ 39,094	2.29%	\$ 4,228,868	\$ 31,852	3.03%
Interest-bearing checking	3,328,612	12,263	1.49%	402,068	385	0.39%
Time deposits	31,970,878	242,719	3.08%	4,581,073	55,712	4.89%
Federal funds purchased and securities sold under agreements to repurchase	913,272	3,191	1.42%			%
Federal Home Loan Bank advances	10,000,000	92,154	3.74%			%
Other borrowings	152,819	3,571	9.48%	188,156	4,396	9.40%
Total interest-bearing liabilities	53,293,808	\$ 392,992	2.99%	9,400,165	\$ 92,345	3.95%
Noninterest-bearing checking accounts	2,768,040			246,454		
Noninterest-bearing liabilities	363,097			226,956		
Stockholders equity	18,964,053			20,769,458		
Total liabilities and stockholders equity	\$ 75,388,998			\$ 30,643,033		
Net interest income		\$ 530,058			\$ 276,581	
Net interest spread		2.12%			1.21%	
Net interest margin		2.93%			3.87%	

** Yields on investment securities have not been adjusted to a tax-equivalent basis.

Table of Contents

The following table presents the dollar amount of changes in interest and fee income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities. The information details the changes attributable to a change in volume (i.e. change in average balance multiplied by the prior-period average rate) and changes attributable to a change in rate (i.e. change in average rate multiplied by the current-period average balance).

Table 2

	Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008		
	Net Change	Rate	Volume
Interest income:			
Gross loans, net of unearned fees	\$ 226,589	\$ (85,444)	\$ 312,033
Investment securities	367,417	13,697	353,720
FHLB and Federal Reserve Bank stocks	2,218	(5,925)	8,143
Federal funds sold	(36,188)	(11,169)	(25,019)
Interest-bearing deposits in banks	(5,912)		(5,912)
Total interest income	\$ 554,124	\$ (88,841)	\$ 642,965
Interest expense:			
Money market and savings deposits	\$ 7,242	\$ (12,763)	\$ 20,005
Interest-bearing checking	11,878	9,178	2,700
Time deposits	187,007	(144,063)	331,070
Federal funds purchased and securities sold under agreements to repurchase	3,191		3,191
Federal Home Loan Bank advances	92,154		92,154
Other borrowings	(825)	30	(855)
Total interest expense	\$ 300,647	\$ (147,618)	\$ 448,265
Net interest income	\$ 253,477	\$ 58,777	\$ 194,700

Net Interest Income and Net Interest Margin

Net interest income is the difference between interest and fee income, principally from loan and investment security portfolios, and interest expense, principally on customer deposits and borrowings. Net interest income is our principal source of earnings. Changes in net interest income result from changes in volume, spread and margin. Volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities. Spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Margin refers to net interest income divided by average interest-earning assets, and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

The Federal Reserve Board influences the general market rates of short-term interest, including the deposit and loan rates offered by the Bank. The Bank's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, was 7.25% on January 1, 2008. During the first quarter of 2008, the prime interest rate fell 200 basis points to end the quarter at 5.25%. During 2008, it fell another 200 basis points to end the 2008 year at 3.25%. The prime interest rate remained at 3.25% for the first quarter of 2009.

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

The federal funds rate, which is the cost of immediately available, overnight funds, has moved in a similar manner. It averaged 3.17% during the first quarter of 2008 compared to 0.19% during the first quarter of 2009.

The impact of these decreases in interest rates can be seen in the Company's decreasing net interest margin, which declined 94 basis points, or 24%, from the first quarter 2008 to the first quarter 2009. As evident in Table 2, the reason for this decline is due to the declining rate environment; however, the impact has been mitigated by the fact

Table of Contents

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

that the Company's volumes have drastically increased. Since a substantial portion of the Bank's loan portfolio is tied to the prime interest rate, the average yield on loans has decreased from 6.57% at March 31, 2008 to 5.17% at March 31, 2009. However, the Bank's average yield on total interest-earning assets has only fallen 5 basis points, from 5.16% during the first quarter of 2008 to 5.11% during the first quarter of 2009, due primarily to a change in the asset mix from lower-yielding assets (federal funds sold) to higher-yielding assets (loans and investments). The Company's balance sheet is currently asset sensitive, meaning that earning assets generally reprice more quickly than interest-bearing liabilities. Therefore, the Company could experience compression in its net interest margin during periods of declining short-term interest rates.

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

Total interest income was \$923,000 for the first quarter of 2009, consisting primarily of interest on investment securities of \$598,000 and interest and fees on loans of \$314,000. This compared to total interest income of \$369,000 during the first quarter of 2008, consisting primarily of interest on investment securities of \$231,000, interest and fees on loans of \$87,000 and interest on federal funds sold of \$37,000. Average loans, net of unearned fees, increased \$19.3 million, from \$5.3 million at March 31, 2008 to \$24.6 million at March 31, 2009. Average investment securities increased \$28.1 million from \$18.1 million at March 31, 2008 to \$46.2 million at March 31, 2009. As more of the Company's resources were deployed in loans and investment securities, average federal funds sold decreased \$2.9 million from \$4.4 million at March 31, 2008 to \$1.4 million at March 31, 2009.

Total interest expense was \$393,000 in the first quarter of 2009, an increase of \$301,000 from \$92,000 during the first quarter of 2008. \$206,000 of this increase was due to higher average deposits which increased \$33.0 million from \$9.2 million at March 31, 2008 to \$42.2 million at March 31, 2009. An additional \$92,000 of this increase was due to interest expense on \$10.0 million of Federal Home Loan Bank advances. Overall, the interest rate on total interest-bearing liabilities decreased from 3.95% at March 31, 2008 to 2.99% at March 31, 2009; primarily due to the falling interest rate environment.

Net interest income was \$530,000 in the first quarter of 2009, an increase of \$253,000, or 92%, from \$277,000 during the first quarter of 2008. This increase was primarily the result of increased volumes. Our annualized net interest margin was 2.93% for the three months ended March 31, 2009 compared to 3.87% for the three months ended March 31, 2008. The net interest margin compression was due to lower interest rates which negatively impacted the Bank given its asset sensitive balance sheet.

Provision for Loan Losses

We determine a provision for loan losses that we consider sufficient to maintain an allowance to absorb probable losses inherent in our portfolio as of the balance sheet date. For additional information concerning this determination, see the section of this discussion and analysis captioned *Allowance for Loan Losses*.

During the first three months of 2009, our provision for loan losses was \$118,000 relating to the growth of our loan portfolio and the estimated probable losses inherent within the portfolio due to uncertainties in economic conditions. There were no loans specifically reserved for under the SFAS 114 Component of the loan loss reserve. Furthermore, there were no charge-offs or non-performing loans during this period.

Noninterest Income

The noninterest income for the quarter ended March 31, 2009 was \$150,000, an increase of \$101,000 from \$49,000 at March 31, 2008. The Company sold thirteen securities for a net gain of \$77,000 during the first quarter of 2009, compared to a net gain of \$40,000 during the first quarter of 2008 for the sale of securities. Service charges on deposits increased \$63,000 from \$6,000 during the first quarter of 2008 to \$69,000 during the first quarter of 2009, due to the significant increase in customer relationships. Sublease income remained constant, at \$4,000, during the first quarter of 2008 and 2009, for offices within the Bank's main office building that are leased to third parties.

Noninterest Expense

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

Our total noninterest expense was \$1.0 million for the quarter ended March 31, 2009, a 21%, or \$184,000, increase from \$861,000 at March 31, 2008. This consisted of an increase in salaries and employee benefits of \$108,000, or 21%, related to the 21 full-time equivalent employees as of March 31, 2009 compared to 16 full-time equivalent employees as of March 31, 2008. Occupancy expense increased \$18,000, or 15%, quarter-over-quarter primarily

Table of Contents

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

due to the re-occupancy of the Bank's professional offices resulting in increased rent expense. Professional fees increased \$44,000, or 62%, quarter-over-quarter, primarily due to increased fees for our external audit.

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

Other general and administrative expenses increased \$14,000, or 8%, quarter-over-quarter. This increase was primarily the result of a \$21,000 increase in regulatory and reporting fees primarily due to increases in Federal Deposit Insurance Corporation (FDIC) fees due to significant increases in average deposit volumes, as well as increases in FDIC rates; a \$19,000, or 41%, increase in data processing fees due to increased customer volumes; \$5,000 increase in dues and memberships as members of the Bank's management team joined more nonprofit organizations in an effort to increase community awareness of the Bank's products and services; \$4,000 increase in postage and shipping primarily due to increased armored courier expenses as the result of increased branch activity; and \$4,000 increase in telephone and communication expense primarily due to the re-occupancy of the Bank's professional offices which required additional information technology and telephone lines; and an \$8,000 increase in miscellaneous other expenses. These increases were partially offset by a \$47,000 decrease in marketing and promotions as the Company reduced some of its marketing expenditures.

Income Taxes

No federal or state tax expense has been recorded for the quarters ended March 31, 2009 and 2008, based upon net operating losses. Since it is uncertain that the Company will become profitable, the deferred tax benefit accumulated to date has a full valuation allowance so that the net deferred tax benefit at March 31, 2009 is \$0.

Financial Condition

Customer deposits, Federal Home Loan Bank advances, and proceeds from the initial public offering completed in 2007 were primarily invested in loans and investment securities, resulting in total assets as of March 31, 2009 of \$87.4 million.

As of March 31, 2009, stockholders' equity was \$18.6 million, as a result of the initial public offering, partially offset by the inception-to-date losses from start-up activities and current operations.

Federal Home Loan Bank (FHLB) and Federal Reserve Bank Stocks

At March 31, 2009, the Bank had a total of \$1.1 million invested in FHLB and Federal Reserve Bank stocks carried at cost consisting of \$448,000 in Federal Reserve Bank stock and \$621,000 in FHLB stock. These investments allow Solera National Bank to conduct business with these entities. As of March 31, 2009, the Federal Reserve Bank stock is yielding an average of 6.0% and the FHLB stock is yielding an average rate of 2.1%.

Investment Securities

Our investment portfolio serves as a source of interest income and, secondarily, as a source of liquidity and a management tool for our interest rate sensitivity. We manage our investment portfolio according to a written investment policy established by our Board of Directors.

At March 31, 2009, Solera National Bank's securities consisted of available-for-sale securities of \$52.5 million. The following table provides additional detail on the Company's investment securities as of March 31, 2009 and December 31, 2008:

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

	March 31, 2009		December 31, 2008	
	Estimated Fair Value	Weighted Average Yield	Estimated Fair Value	Weighted Average Yield
Securities available-for-sale				
U.S. government agencies	\$ 4,783,008	4.93%	\$ 5,745,734	5.38%
Corporate	3,816,968	5.90	1,503,562	5.99
State and municipal	15,368,148	5.61	2,929,838	5.59
Mortgage-backed securities	28,515,972	5.05	31,378,327	5.20
Total securities available-for-sale	\$ 52,484,096	5.26%	\$ 41,557,461	5.28%

Table of Contents**Loan Portfolio**

Our primary focus is income from interest on loans. The following table presents the composition of our loan portfolio by category as of the dates indicated:

	March 31, 2009		December 31, 2008	
	Amount	% of Total	Amount	% of Total
Real estate commercial	\$ 13,613,557	44%	\$ 7,478,806	35%
Real estate residential	5,224,006	17	5,043,352	24
Construction and land development	6,220,904	20	3,848,555	18
Commercial and industrial	5,043,029	16	4,083,633	19
Consumer	964,085	3	958,611	4
Gross loans	31,065,581	100%	21,412,957	100%
Less:				
Allowance for loan losses	(385,500)		(268,000)	
Deferred loan (fees) / expenses, net	(118,276)		(56,747)	
Loans, net	\$ 30,561,805		\$ 21,088,210	

As of March 31, 2009, net loans were \$30.6 million, a \$9.5 million, or 45%, increase from \$21.1 million at December 31, 2008. Net loans as a percentage of total assets were 35% as of March 31, 2009, compared to 31% at December 31, 2008.

The real estate commercial loan portfolio consists primarily of lines of credit or term loans to businesses that are secured by real estate. At March 31, 2009, there were \$13.6 million commercial real estate loans in the loan portfolio, an increase of 82%, or \$6.1 million, from \$7.5 million at December 31, 2008.

The real estate residential loan portfolio consists of residential second mortgage loans, home equity loans and lines of credit and home improvement loans. At March 31, 2009, \$5.2 million was outstanding for residential real estate loans, an increase of 4% from \$5.0 million outstanding at December 31, 2008.

The construction and land development loan portfolio is comprised of construction loans for owner-occupied construction and development loans for property being constructed and sold to third parties. At March 31, 2009, construction and land development loans totaled \$6.2 million, an increase of \$2.4 million, or 62%, from \$3.8 million at December 31, 2008.

The commercial and industrial loan portfolio consists of loans to businesses primarily for working capital lines of credit. At March 31, 2009, commercial and industrial loans totaled \$5.0 million, a \$959,000, or 23%, increase from \$4.1 million at December 31, 2008.

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

The consumer and other loan portfolio consists of personal lines of credit, loans to acquire personal assets such as automobiles and boats and overdraft protection balances for our deposit customers. As of March 31, 2009, there were \$964,000 consumer and other loans in the loan portfolio, an increase of \$5,000 from December 31, 2008.

Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. The Bank's loan portfolio generally consists of loans to borrowers within Colorado. Although the Bank seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, the Bank's loan portfolio consists primarily of real estate loans secured by real estate located in Colorado, making the value of the portfolio more susceptible to declines in real estate values and other changes in economic conditions in Colorado. Although the Colorado economy has outperformed the majority of other metropolitan areas nationally, it began to show some signs of weakness during the fourth quarter of 2008. Management is diligently monitoring the impact these economic trends may have on our Colorado loan portfolio. At this time, management believes the allowance for loan losses has adequately captured the overall weaknesses in the Colorado economy. Additionally, since the Bank's loan portfolio is in the initial stages, it contains only 86 funded loans, with the three largest loans comprising approximately 20% of the portfolio's gross value. However, management expects this concentration to diminish

Table of Contents

over time as the Bank's loan portfolio continues to grow. No single borrower can be approved for a loan over the Bank's current legal lending limit of approximately \$2.1 million. This regulatory requirement helps to ensure the Bank's exposure to one individual customer is limited.

Management may renew loans at maturity when requested by a customer whose financial strength appears to support such a renewal or when such a renewal appears to be in the best interest of Solera National Bank. Solera National Bank requires payment of accrued interest in such instances and may adjust the rate of interest, require a principal reduction, or modify other terms of the loan at the time of renewal.

Loan terms vary according to loan type. The following table shows the contractual maturity distribution of loans as of March 31, 2009 and December 31, 2008:

	As of March 31, 2009						Total
	One Year or Less	Over 1 Year through 5 Years		Over 5 Years			
		Fixed Rate	Floating or Adjustable Rate	Fixed Rate	Floating or Adjustable Rate		
Real estate commercial	\$ 616,771	\$ 5,319,951	\$ 1,030,000	\$ 6,646,835	\$	\$ 13,613,557	
Real estate residential	1,550	92,667			5,129,789	5,224,006	
Construction and land development	3,669,976	1,025,000	1,525,928			6,220,904	
Commercial and industrial	1,979,170	1,151,757	753,172	1,158,930		5,043,029	
Consumer	220,125	715,298		28,662		964,085	
Gross loans	\$ 6,487,592	\$ 8,304,673	\$ 3,309,100	\$ 7,834,427	\$ 5,129,789	\$ 31,065,581	

	As of December 31, 2008						Total
	One Year or Less	Over 1 Year through 5 Years		Over 5 Years			
		Fixed Rate	Floating or Adjustable Rate	Fixed Rate	Floating or Adjustable Rate		
Real estate commercial	\$ 30,000	\$ 5,182,139	\$ 991,531	\$ 1,275,136	\$	\$ 7,478,806	
Real estate residential	1,550	415,995			4,625,807	5,043,352	
Construction and land development	3,103,333		745,222			3,848,555	
Commercial and industrial	2,267,209	993,550	575,207	247,667		4,083,633	
Consumer	242,389	716,222				958,611	
Gross loans	\$ 5,644,481	\$ 7,307,906	\$ 2,311,960	\$ 1,522,803	\$ 4,625,807	\$ 21,412,957	

Nonperforming Loans, Leases and Assets

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

Nonperforming assets consist of loans and leases on nonaccrual status, loans 90 days or more past due and still accruing interest, loans that have been restructured resulting in a reduction or deferral of interest or principal, OREO, and other repossessed assets. As of March 31, 2009, there were no nonperforming assets.

An internally classified loan list is maintained that helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. Loans classified as *substandard* are those loans with clear and defined weaknesses, such as highly leveraged positions, unfavorable financial ratios, uncertain repayment resources or poor financial condition, which may jeopardize recoverability of the loan. Loans classified as *doubtful* are those loans that have characteristics similar to substandard loans, but also have an increased risk that loss may occur or at least a portion of the loan may require a charge-off if liquidated at present. Although loans classified as substandard do not duplicate loans classified as doubtful, both substandard and doubtful loans may include some loans that are past due at least 90 days, are on nonaccrual status or have been restructured. Loans classified as *loss* are those loans that are in the process of being charged-off. Solera National Bank had no loans classified in any of these categories at March 31, 2009.

Table of Contents*Allowance for Loan Losses*

Implicit in Solera National Bank's lending activities is the fact that loan losses will be experienced and that the risk of loss will vary with the type of loan being made and the creditworthiness of the borrower over the term of the loan. To reflect the currently perceived risk of loss associated with the loan portfolio, additions are made to the allowance for loan losses in the form of direct charges against income to ensure that the allowance is available to absorb possible loan losses. The factors that influence the amount include, among others, the remaining collateral and/or financial condition of the borrowers, historical loan loss, changes in the size and composition of the loan portfolio, and general economic conditions.

The amount of the allowance equals the cumulative total of the provisions made from time to time, reduced by loan charge-offs and increased by recoveries of loans previously charged-off. Until management has adequate historical data upon which to base the estimate of the allowance for loan losses, information regarding the ability of the borrower to repay the loan, current economic conditions and other pertinent factors will be considered. The allowance was \$386,000, or 1.24% of outstanding principal as of March 31, 2009 compared to \$268,000, or 1.25% of outstanding principal as of December 31, 2008.

Credit and loan decisions are made by management and the Board of Directors in conformity with loan policies established by the Board of Directors. Solera National Bank's practice is to charge-off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or other reasons. During the three months ended March 31, 2009 and 2008, there were no charge-offs.

Off-Balance-Sheet Arrangements

In the ordinary course of business, the Company enters into various off-balance-sheet commitments and other arrangements to extend credit that are not reflected in the consolidated balance sheets of the Company. The business purpose of these off-balance-sheet commitments is the routine extension of credit. The total amounts of off-balance-sheet financial instruments with credit risk were as follows:

	March 31, 2009		December 31, 2008	
Commitments to extend credit	\$	9,585,718	\$	6,715,658
Letters of credit				
Total commitments	\$	9,585,718	\$	6,715,658

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments also include revolving lines of credit arrangements and unused commitments for commercial and real estate secured loans. Since many of the commitments are expected to expire without being drawn upon, the commitments do not necessarily represent future cash requirements.

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

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers and, therefore, the Company applies the same rigorous underwriting standards to letters of credit.

The Company faces the risk of deteriorating credit quality of borrowers to whom a commitment to extend credit has been made; however, no significant credit losses are expected from these commitments and arrangements.

Table of Contents

Borrowings

As of March 31, 2009, the Bank had \$10.0 million in borrowings from the Federal Home Loan Bank of Topeka (FHLB) with varying maturity dates between April 2009 and June 2010 and a weighted-average fixed interest rate of 3.74%. On April 16, 2009, \$1.3 million of the fixed-rate advance matured and was subsequently rolled into an overnight line-of-credit with the FHLB. The current interest rate on this variable-rate line-of-credit is approximately 200 basis points less than the fixed-rate advance it replaced.

The Bank has also established unsecured Federal Funds lines-of-credit totaling \$11.3 million with Bankers Bank of the West, First Tennessee Bank N.A., the Independent Bankers Bank, and Wells Fargo. Additionally, the Bank has access to a secured Federal Funds line with Bankers Bank of the West. As of March 31, 2009, the Company had \$345,000. outstanding on these lines.

Loan Commitments

At March 31, 2009, the Company had \$9.6 million in outstanding loan origination commitments. Management believes Solera National Bank has sufficient funds available to meet current origination and other lending commitments.

Capital Resources and Capital Adequacy Requirements

The risk-based capital regulations established and administered by the banking regulatory agencies are applicable to Solera National Bank. Risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Under the regulations, assets and off-balance-sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items. Under the prompt corrective action regulations, to be adequately capitalized a bank must maintain minimum ratios of total capital to risk-weighted assets of 8.0%, Tier 1 capital to risk-weighted assets of 4.0%, and Tier 1 capital to total average assets of 4.0%. Failure to meet these capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on Solera National Bank's financial statements.

As of March 31, 2009, Solera National Bank was categorized as well-capitalized. A well-capitalized institution must maintain a minimum ratio of total capital to risk-weighted assets of at least 10.0%, a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, and a minimum ratio of Tier 1 capital to total average assets of at least 5.0% and must not be subject to any written order, agreement, or directive requiring it to meet or maintain a specific capital level.

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

The following table summarizes the ratios of the Bank and the regulatory minimum capital requirements at March 31, 2009:

As of March 31, 2009 (\$ in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Problems	
	Amount	%	Amount	%	Amount	%
Total capital (to risk-weighted assets)	\$ 14,856	30.2%	\$ 3,931	>8.0%	\$ 4,914	>10.0%
Tier 1 capital (to risk-weighted assets)	\$ 14,470	29.4%	\$ 1,966	>4.0%	\$ 2,949	>6.0%
Tier 1 capital (to average assets)	\$ 14,470	19.2%	\$ 3,012	>4.0%	\$ 3,765	>5.0%

Table of Contents

Liquidity

The primary source of liquidity for the Company will be dividends paid by Solera National Bank. Solera National Bank is currently restricted from paying dividends without regulatory approval that will not be granted until the accumulated deficit has been eliminated.

Solera National Bank's liquidity is monitored by its staff, the Asset Liability Committee and the Board of Directors, who review historical funding requirements, current liquidity position, sources and stability of funding, marketability of assets, options for attracting additional funds, and anticipated future funding needs, including the level of unfunded commitments.

Solera National Bank's primary sources of funds are retail and commercial deposits, loan and securities repayments, other short-term borrowings, and other funds provided by operations. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan prepayments are more influenced by interest rates, general economic conditions, and competition. Solera National Bank will maintain investments in liquid assets based upon management's assessment of (1) the need for funds, (2) expected deposit flows, (3) yields available on short-term liquid assets, and (4) objectives of the asset/liability management program.

As loan demand increases, greater pressure will be exerted on Solera National Bank's liquidity. However, it is management's intention to maintain a conservative loan to deposit ratio in the range of 80 - 90% over time. Given this goal, Solera National Bank will not aggressively pursue lending opportunities if sufficient funding sources (*e.g.*, deposits, Federal Funds, etc.) are not available, nor will Solera National Bank seek to attract transient volatile, non-local deposits with above market interest rates. As of March 31, 2009, the loan to deposit ratio was 56% a slight decrease from 57% at December 31, 2008.

Solera National Bank had cash and cash equivalents of \$1.6 million, or 1.8% of total Bank assets, at March 31, 2009. Management feels Solera National Bank should have adequate liquidity to meet anticipated future funding needs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, the Company is not required to provide the information required by this Item.

ITEM 4(T). CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management is responsible for maintaining effective disclosure controls and procedures. As of the end of the period covered by this Quarterly Report on Form 10-Q, management evaluated the effectiveness and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, both the Company's Principal Executive Officer and Principal Accounting and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in reports that are filed or submitted under the Exchange Act are recorded, processed, summarized and reported to management within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in internal controls over financial reporting during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

As a smaller reporting company, the Company is not required to provide the information required by this Item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

- 31.1 Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.*
- 31.2 Certification of the Principal Accounting and Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.*
- 32.1 Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act and 18 U.S.C. §1350.*

* Filed herewith.

Table of Contents

SOLERA NATIONAL BANCORP, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOLERA NATIONAL BANCORP, INC.
(Registrant)

Date: May 12, 2009

/s/ Douglas Crichfield
Douglas Crichfield
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Robert J. Fenton
Robert J. Fenton
Vice President, Secretary & Treasurer
(Principal Accounting and Chief Financial Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
31.1	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act
31.2	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act
32.1	Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act and 18 U.S.C. §1350