



## **INTERMEDIATE SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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### **PUBLIC DISCLOSURE**

**November 30, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank  
Charter Number 7043**

**303 West Main Street  
Artesia, New Mexico 88211**

**Comptroller of the Currency  
Arizona & New Mexico  
9633 South 48<sup>th</sup> Street, Suite 265  
Phoenix, Arizona 85044**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory

The First National Bank's lending performance reflects a satisfactory response to community credit and community development needs. This conclusion is based on the following results from our review.

- The loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance.
- The bank originated a majority of loans inside its assessment areas (AA).
- Lending activities represent a more than reasonable penetration among individuals of different income levels and businesses of different sizes.
- Geographic distribution of loans falls below area demographics, but other factors mitigate a significant impact on the overall rating.
- Community development loans, investments, and services are adequate.

## **SCOPE OF EXAMINATION**

This performance evaluation (PE) evaluates information since the bank's August 11, 2003 Community Reinvestment Act (CRA) examination. The lending test is evaluated through September 30, 2006. Community development (CD) activities are evaluated from the date of the bank's last PE through December 26, 2006.

We identified business loans (including commercial real estate) as the bank's primary product based on the number and dollar amount of loans originated in 2004, 2005, and 2006 through September 30, 2006. We pulled an original sample of 20 business loans from each AA, for a total of 40 loans, to determine the lending inside the AA. To perform other lending tests, we eliminated loans outside the AA from the original sample and added back enough loans to provide a sample of 20 business loans in each AA.

The evaluation was based on activity in the Las Cruces metropolitan statistical area (MSA) and in the non-MSA areas located in southeastern New Mexico. The overall rating is based on lending tests in the two assessment areas and the community development test.

## **DESCRIPTION OF THE INSTITUTION**

The First National Bank (FNB) is an intrastate bank headquartered in Artesia, New Mexico and is owned by First Artesia Bancshares, Inc., a one-bank holding company. The bank has a main office in Artesia and branches in Alamogordo, Hobbs, Las Cruces (2), Lovington, and Roswell. Since the last examination, the branches in Alamogordo and Lovington are new and the branch in Hobbs was moved to another location in Hobbs. All branches are in middle- or upper-income census tracts (CTs). However, both Las Cruces branches, the Alamogordo branch, and the Roswell branch are adjacent to moderate income CTs in their respective communities and three of the offices are in distressed middle-income CTs. See *Description of the Areas* section for details. The bank has no deposit-taking ATMs.

As of September 30, 2006, the bank's net loans totaled \$281 million, representing 62 percent of total assets. The bank's strategy is focused on business lending, with the majority being commercial real estate. The loan mix is heavily weighted in real estate with 53 percent commercial including construction, land development and multi-family, and 12 percent in 1-4 family residential loans. Commercial and industrial loans represented 20 percent, agricultural loans 10 percent, and loans to individuals 4 percent. The bank had total assets of \$450 million and \$33 million in tier 1 capital.

The bank received a rating of "Satisfactory" under the small bank test at the prior evaluation dated August 11, 2003. The bank offers a full range of depository and loan products. There are no financial or legal impediments impairing the bank's ability to perform under the CRA.

## **DESCRIPTION OF LAS CRUCES, NEW MEXICO MSA, AND THE COMBINED NON-MSA AREAS**

The bank's AA includes one MSA and one combined non-MSA area. The Las Cruces MSA comprises 20 CTs in Dona Ana County, including one low- and two moderate-income CTs. The non-MSA AA consists of 35 CTs including nine CTs in Otero County comprising the city of Alamogordo, 10 CTs in Lea County including the cities of Hobbs and Lovington, three CTs in northern Eddy County including the city of Artesia, and all of Chaves County including the city of Roswell. There are no low-income CTs in the non-MSA area. There are three moderate-income CTs in Lea and Roswell counties, and one in the Otero county portion of the AA. Since the designation was created in 2005, the AA has also included 14 distressed/underserved non-metropolitan middle-income geographies (five in Lea County and two in Eddy County for population loss, and seven in Chavez County based on poverty level).

For ease of reference in the PE, the two main AAs are simply referred to as "Las Cruces" and "non-MSA" areas. The AAs described meet the requirements of CRA and do not arbitrarily exclude any low- or moderate-income (LMI) areas. For additional details on the CTs and income designations, see the bank's public file. In October 2006, the bank expanded its AA, but our evaluation only includes the AA in effect during the evaluation period. The demographic highlights of Las Cruces and the non-MSA CTs are summarized below.

Las Cruces has a population of 118 thousand. Unemployment for 2004-2005 is reported at 6.4

and 5.8 percent, respectively. The primary employment base in Las Cruces is federal, state, and local government. Major employers in the area include New Mexico State University, White Sands Missile Range, NASA, and local municipalities and schools. Agriculture also plays a part in the local economy, notably in chiles and pecans.

Competition is fairly high. FNB has only five percent of the deposit market share in Las Cruces. The top two banks comprise 46 percent of the market share, and none of the other 13 banks in the market have more than 10 percent.

During our evaluation of FNB, we contacted a community organization to determine the needs and opportunities in the AA. The contact was an organization that provides financing for housing throughout the state. The contact determined that there is an increasing need for affordable housing in New Mexico. The influx of new residents from throughout the west, especially the west coast, where home prices are much higher, has resulted in an increase in prices in Las Cruces and other parts of southern New Mexico. The increase in home prices has also impacted the state's infrastructure in areas such as transportation, education, and government services. There is also a need for a better trained workforce. The specific example given by the contact was the need for better trained loan processors.

There are other recent community contacts of organizations which support small businesses, including minority and women-owned businesses, and micro-businesses. Commenters from this group suggested that banks could improve their overall commitment to small business by providing more financial assistance to all of the alternative credit providers through operating and loan funds. They could also assist the providers and the small business community by referring more small businesses to the providers, rather than simply declining loans and sending the prospective borrowers on their way. Providing financial literacy training for small businesses was another way these organizations felt the banks could improve the success rate for small businesses.

The non-MSA area has a combined population of 167 thousand. Unemployment for 2004-2005 ranges from a low in Lea County of 5.0 and 4.4 percent, respectively, to a high in Chaves County of 6.9 and 6.0 percent, respectively. The primary economic base in the area includes government, oil and gas, and agriculture, including dairy. Major employers in each of the non-MSA areas include their respective municipal schools, and other educators such as NM Military Institute and the Roswell branch of Eastern New Mexico University. Other employers include Navajo Refining, Yates Petroleum, FLETC (the Federal Law Enforcement Training Center, providing training for border patrol and sky marshals), Halliburton, Lea Regional Medical Center, Wal-Mart, Holloman Air Force Base, and White Sands Missile Range (which is an employer in both the MSA and non-MSA markets).

Competition for financial services in the non-MSA area is comparable, with many of the same competitors found in the Las Cruces market. However, FNB ranks higher in the non-MSA market, with 11 percent of the deposit market share. Only one bank ranks higher, a nationwide organization with 20 percent of the market share. There are 15 additional banks in the market, which include six smaller community banks that only operate in the non-MSA market.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Lending Test

The bank's performance under the lending test is rated satisfactory. Three of the five components of the lending test are applied to FNB as a whole: the LTD ratio; lending in the AA ratio; and complaints. The borrower distribution and geographic distribution tests are rated separately for Las Cruces and the non-MSA area, as demographic data are different. Conclusions regarding the bank's performance are based on the following.

### Loan-to-Deposit Ratio

FNB's LTD ratio is more than reasonable given the bank's size, financial condition, and credit needs of the AA. As of September 30, 2006, the bank's quarterly average LTD for the last 14 quarters was compared with other financial institutions operating within their AA. The results are summarized below.

SUMMARY	
FNB Avg. LTD Ratio	<b>79%</b>
Other Institutions – Avg. LTD Ratio	60%
Other Institutions – High Avg. LTD Ratio	86%
Other Institutions – Low Avg. LTD Ratio	22%

None of the nationwide banks in the market place are used as a competitor for this test. Only one of the comparables is larger than the subject bank, and it is not strictly comparable as it is a Federal Savings Association with a different business strategy. That institution represents the high average LTD ratio in the group. Of the five other commercial banks in the group, FNB represents the highest LTD. The other banks are smaller, and most only represented in one market place. FNB's geographic diversification has helped maintain a healthy LTD ratio.

### Lending in Assessment Area

As reflected in the following table, a majority of the number and a majority of the dollar amount of loans are inside the bank's AA.

Lending inside Combined MSA/non-MSA Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (\$000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Total Business Loans	<b>33</b>	<b>83</b>	7	17	40	<b>4,631</b>	<b>86</b>	767	14	5,398

Source: original sample of 40 business loans

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

Given the demographics of the AA, the borrower distribution reflects more than reasonable penetration among individuals of different income levels and businesses of different sizes. The loans in the Las Cruces and non-MSA areas are analyzed separately against each area's own demographics in the following tables.

<b>Borrower Distribution of Loans to Businesses in Las Cruces MSA</b>				
Gross Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65%	5%	30%	100%
% of Bank Loans in AA by #	<b>90%</b>	10%	0%	100%
% of Bank Loans in AA by % \$	<b>99%</b>	1%	0%	100%

*Source: Loan sample from inside the MSA AA; Dunn & Bradstreet data.*

As reflected in the table above, performance for lending to businesses of different sizes in Las Cruces is more than reasonable. The percentage of the number and dollar amount of loans in the sample meets or exceeds the demographic of the percentage of AA businesses with gross revenues of less than \$1 million.

<b>Borrower Distribution of Loans to Businesses in non-MSA</b>				
Gross Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65%	4%	31%	100%
% of Bank Loans in AA by #	<b>65%</b>	35%	0%	100%
% of Bank Loans in AA by % \$	<b>35%</b>	65%	0%	100%

*Source: Loan sample from inside the non-MSA AA; Dunn & Bradstreet data.*

As reflected in the table above, performance for lending to businesses of different sizes in the non-MSA area is in line with the percent of businesses having revenues of less than \$1 million, based on the number of loans. The percent of dollars lent to businesses with revenues less than \$1 million is comparatively low, but distorted by larger businesses being able to support larger loans. In a small sample of 20 loans, unless the loans are all of roughly similar size, one or two large loans can quickly distort the ratios. Two of the seven loans are each for approximately \$1 million dollars. The next largest loan for just over \$200 thousand is to a business with gross revenues of less than \$1 million, and other loans to small businesses in the sample range as small as \$10 thousand. Since the bank meets the ratio as measured by the number of loans, its performance in the non-MSA is considered more than reasonable overall.

### Geographic Distribution of Loans

The geographic distribution of loans falls below area demographics. However, there are other factors that reflect positively on the bank’s performance and mitigate a significant negative impact on the overall rating. The loans in the Las Cruces and non-MSA areas are analyzed separately against each area’s own demographics in the following tables.

<b>Geographic Distribution of Loans to Businesses in Las Cruces MSA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number Of Loans
Small Business	<b>2</b>	<b>0</b>	<b>10</b>	<b>5</b>	47	60	41	35

*Source: Loan sample from inside the MSA AA; Dunn & Bradstreet data.*

There are very limited opportunities to lend to businesses in low-income census tracts in Las Cruces. This fact was reflected in our sample, with no loans in the area’s one low-income CT. However, there are opportunities in moderate-income CTs, and the bank’s performance is significantly lower than the area demographics.

<b>Geographic Distribution of Loans to Businesses in non-MSA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number Of Loans
Small Business	0	0	<b>19</b>	<b>10</b>	61	55	20	35

*Source: Loan sample from inside the non-MSA AA; Dunn & Bradstreet data.*

There are no low-income CTs in the non-MSA area. However, there are opportunities in moderate-income CTs, and the bank’s performance is significantly lower than the area demographics.

Another non-qualitative factor to consider in this test may be found in the performance context for the bank. There was a change in the CRA regulation effective September 1, 2005 which expanded the definition for community development. This regulatory change creates a new geographic category referred to as “distressed or underserved non-metropolitan middle-income geographies” based on rates of poverty, unemployment, or population loss. As noted in the *Description of Assessment Area* section, there are 14 such CTs in the bank’s non-MSA AA.

While this new definition is intended to only be used in the Community Development test below, it is reasonable to discuss the new definition in relation to the loan sample. In this case, nine of the 20 loans in the non-MSA sample were to borrowers in these distressed or underserved middle-income geographies. Even if you discount those loans made before the September 1, 2005 effective date of the definition, there were still three of the 20 loans in the non-MSA sample to businesses in these distressed or underserved middle-income geographies.

### Responses to Complaints

We reviewed the bank's public file for complaints, and complaints reported to the OCC through the customer service hotline. There were no complaints relating to the bank's meeting of the community credit needs through the CRA.

### **Community Development Test**

The bank does not have a formal assessment of the CD needs in its communities. However, given the need and availability for CD opportunities in the bank's AA as determined through community contacts, FNB made an adequate response to the CD needs through CD loans, qualified investments, and CD services.

### Number and amount of community development loans

CD Lending demonstrates excellent responsiveness to needs in the AA. The bank made nine qualifying community development loans totaling \$11.3 million during the evaluation period, or 34% of Tier 1 Capital. These loans included:

- Two loans totaling \$6.4 million under the U.S. Small Business Administration's SBA 504 loan program that requires that a job either be created or maintained for each \$50,000 in loan funds;
- One loan for \$1 million for the expansion of a hospital in a distressed geography under the regulatory definition;
- Three loans for \$2.1 million under the USDA Farm Service Agency guaranteed loan program, under which the bank was approved as a Preferred Lender in 2006;
- One loan for \$1.4 million under the SBA 7(a) loan program, under which the bank was also approved as a Preferred Lender in 2006; and
- Two additional loans to non-profit housing organizations totaling \$400,000 also qualified as CD loans.

There were other loans with a community development purpose, but they did not meet the size test for community development loans, such as a small loan to a non profit organization for improvements on their building. FNB also participates in several of the New Mexico Mortgage Finance Authority (NMMFA) programs for LMI individuals including first time home buyers and with NMMFA and the U.S. Department of Agriculture on a project for LMI borrowers building straw bale houses on leasehold land. The bank has also worked with FNMA and a local medical facility to provide workforce housing using employer-assisted housing funds, and with local housing authorities to provide Section 8 subsidized housing loans for low-income borrowers. Under these various programs, the bank made 102 loans totaling more than \$8

million. Because residential mortgages are not a primary product for the bank, and were not included in the lending test, we included them in the narrative for CD lending because they meet the spirit of community development loans and are responsive to local housing needs.

#### Number and amount of qualified investments

The bank had minimal CD investment activity. Two investments totaling \$410 thousand were made during the evaluation period that qualify for CRA credit. These were municipal bond investments made in distressed geographies in the bank's AA. CRA qualifying donations, including a non profit housing organization, were also limited at just over \$12 thousand. Part of that \$12 thousand includes the bank's partnership with a non-profit organization to provide operating grants to offer Individual Development Accounts (IDA) in the AA. The bank has committed \$16 thousand to the effort that will benefit LMI individuals in the counties it serves. The Las Cruces allocation of \$5 thousand has been distributed. The balance of the funds is expected to be distributed in the next calendar year. The FNB program is the only IDA program in the area. IDAs are matched savings accounts that enable low-income American families to save, build assets, and enter the financial mainstream. The match is provided through a variety of government and private sector sources.

#### Extent to which the bank provides community development services

CD services demonstrate adequate responsiveness to needs in the AA.

- The bank has seven offices located in middle- and upper-income CTs. However, three of the middle-income CTs are also in distressed geographies. Saturday service from 9:00 A.M. to noon is provided at the bank's offices in the MSA and Otero County.
- The bank provides some new products and services targeted to LMI individuals including a checking account with no fees for the first 25 checks, and cashing of payroll checks at no charge to employees of business customers whether the employees are customers or not. Translation services are also provided by the bank, which has benefited the mortgage department's participation in the first time homebuyers program.
- The bank does encourage its employees to volunteer in local service activities. However, most of the organizations served focus on social service activities that do not qualify for CRA credit. The bank does not track hours in the qualifying services, but four officers have provided their financial expertise in their respective communities serving on three affordable housing boards or committees; three officers serve on economic development organization boards; and four officers provide financial services other non-profit organizations whose services are targeted to LMI individuals or for financial education.

Bank's responsiveness, through community development activities, to community development lending, investment, and services needs

FNB's responsiveness to community development needs in the AA is adequate. The bank could be more responsive to the needs in its AAs if it completed a needs assessment of the service area, developed a plan to address certain needs, and implemented the plan. The bank could also partner with more of the community development corporations that provide products and services that fit within the bank's business plan, such as non-profit business loan organizations and technical assistance providers.

**Fair Lending or Other Illegal Credit Practices Review**

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