



## PUBLIC DISCLOSURE

July 29, 2013

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank  
Charter Number 14786

414 10th Street  
Alamogordo, New Mexico 88310-6766

Office of the Comptroller of the Currency

Phoenix Field Office  
9633 South 48th Street, Suite 265  
Phoenix, Arizona 85044-8629

**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 overall performance of First National Bank (FNB) is Satisfactory. Primary factors contributing to the bank's rating follow.

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) needs.
- A substantial majority of the bank's loans are made inside the AA.
- Lending activities represent a reasonable penetration of borrowers with different incomes and businesses of different sizes.
- Geographic distribution represents a reasonable dispersion throughout census tracts (CTs) of different income levels in the bank's AA.
- Community development (CD) activities, including CD lending, qualified investments, and services, demonstrate adequate responsiveness to needs in the bank's AA.

**Scope of Examination**

The examination of FNB consisted of a full-scope review of the bank's single AA. An Intermediate Small Bank examination consists of two tests. The lending test covered loans originated in 2011, 2012, and through April 30, 2013, referred to in this Performance Evaluation (PE) as the evaluation period. The CD test includes all activities since the last Community Reinvestment Act (CRA) examination as of July 7, 2010, through the start date of this examination. No affiliate activities were reviewed as a part of this examination.

<b>Loan Originations for Evaluation Period</b>	<b>% of Dollar Amount of Loans</b>	<b>% of Number of Loans</b>
Commercial Loan Originations as a % of Total Originations	62%	30%
Consumer Loan Originations as a % of Total Originations	4%	47%

*Source: Loan originations for the evaluation period.*

We sampled 20 loans from each of the bank's primary loan products, which were determined to be commercial and consumer loans. The data from the loan sample was used to calculate the inside/outside AA ratio. All loans in the sample were originated inside the AA, so we did not have to expand the sample to perform the other lending

tests. The sample is representative of the bank's business strategy since the last examination.

Due to the Census data changing during the evaluation period, we compared 2000 Census data to loans originated from January 1, 2011, to December 31, 2011; and 2010 Census data to loans originated from January 1, 2012, to April 30, 2013.

## **Description of Institution**

FNB is a community bank headquartered in Alamogordo, New Mexico, a non-metropolitan area in the southeastern part of the state. The bank is a subsidiary of a one-bank holding company, First Alamogordo Bancorp of Nevada, Inc., which owns 100% of the bank's stock. Since the previous CRA examination, the bank merged with an affiliate bank, First National Bank of Ruidoso, on July 7, 2011. As of June 30, 2013, FNB had \$324.6 million in total assets and net total loans of \$122.1 million, or 37.32% of total assets. FNB operates out of eight offices, with its main office and two branches in Alamogordo, plus branches in Tularosa, Cloudcroft, Artesia, and two in Ruidoso, New Mexico. FNB also has seven deposit-taking ATMs at these locations with the exception of the Ruidoso Upper Canyon branch, which does not have an ATM. The bank also has three additional ATMs in Alamogordo and one in Ruidoso that do not accept deposits. One branch, along with a deposit taking ATM in Alamogordo, was closed in March 2011 due to its close proximity to the main branch. There are no affiliates.

FNB's strategic focus is to continue supporting the economic growth and development of its AA by providing competitive banking solutions for commercial and consumer customers. The bank's primary lending focus is small business and consumer loans. The bank originates residential real estate loans, the majority of which are sold on the secondary market.

There are no financial or legal impediments that hinder the bank's ability to help meet the credit needs of the AA. The bank was previously rated Outstanding as a Small Bank at its last CRA examination dated July 7, 2010. Additional details about the bank may be found in its Public File, maintained at the main office of the bank.

## **Description of Assessment Area**

FNB designated all of the CTs in the four contiguous southeastern counties of Otero, Lincoln, Eddy, and Chaves, New Mexico as its AA. The entire AA is in a non-metropolitan statistical area. For 2011, the AA had 43 CTs based on the 2000 Census that included no low-income tracts, 6 moderate-income tracts, 29 middle-income tracts, and 8 upper-income tracts. In 2012, the CTs in the AA increased to 49 based on the 2010 Census and included 1 low-income tract, 7 moderate-income tracts, 26 middle-income tracts, and 15 upper-income tracts. The 16 middle-income CTs located in Otero and Chaves counties were designated as distressed middle-income non-metropolitan tracts for poverty in 2012. The AA meets the legal requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies.

*Otero County*

Otero County includes the city of Alamogordo, the villages of Tularosa and Cloudcroft, and the Mescalero Apache Indian Reservation. The main office of FNB and two branches are located in Alamogordo, one branch is in Tularosa, and one branch is in Cloudcroft. Based on the 2010 Census, the main office is now located in a low-income CT; three branches, one each in Alamogordo, Tularosa, and Cloudcroft, are located in distressed middle-income non-metropolitan CTs; and one branch is in an upper-income CT. The economy of Otero County is largely based in government, education, and tourism. Major employers include Holloman Air Force Base, White Sands Missile Range, Alamogordo Public Schools, the U.S. Forest Service, and the U.S. Border Patrol. Government-owned lands include the Mescalero Apache Indian Reservation, White Sands Missile Range, Fort Bliss Military Reservation, White Sands National Monument, and Lincoln National Forest. Local economic conditions have stabilized over the past few years, in part due to the large number of government jobs in the area. Unemployment since the last examination declined from 6.8 percent in 2010, to an average of 6.4 percent through June 30, 2013.

*Lincoln County*

FNB has two branches in Lincoln County located in a middle-income CT within the village of Ruidoso. The economy of Lincoln County is based in tourism, retail, and government. The Mescalero Apache Tribe operates the Inn of the Mountain Gods hotel, golf course, and casino and Ski Apache Resort, which is the single largest employer. Other major employers include Ruidoso Downs Race Track and Casino, Ruidoso Municipal Schools, and the Lincoln County Medical Center. Government-owned lands include Lincoln National Forest and Cibola National Forest. Local economic conditions are stable and unemployment declined from 6.3 percent in 2010, to an average of 5.7 percent through June 30, 2013.

*Eddy County*

FNB has one branch located in a middle-income CT in the city of Artesia, which is in the north central region of Eddy County. The economy is based primarily on the oil and gas industry, along with farming, ranching, dairy, and government. The major employers include Navajo Refining Company, several oil and gas companies, the Federal Law Enforcement Training Center, and Artesia General Hospital. Government-owned lands account for almost 82 percent of the county's 2.7 million acres, and include the nuclear Waste Isolation Pilot Plant, Lincoln National Forest, Carlsbad Caverns National Park, and Brantley Lake State Park. Local economic conditions have improved significantly in the past several years due to the oil and gas industry boom in the county. Unemployment declined from 5.7 percent in 2010, to an average of 4.0 percent through June 30, 2013.

*Chaves County*

Chaves county is largely rural in nature and sparsely populated. The economy is based primarily on the oil and gas industry, farming, and ranching. Major employers include Roswell Independent School District, Eastern New Mexico Medical Center, Eastern New Mexico University-Roswell, and Leprino Foods. Government-owned lands account for approximately 53 percent of the county's 3.9 million acres, and include Lincoln National Forest, Bitter Lake National Wildlife Refuge, and Bottomless Lakes State Park. Much of the federal land is managed by the Bureau of Land Management and is leased for rangeland and oil and gas production and exploration. Local economic conditions have stabilized over the past several years and unemployment declined from 7.7 percent in 2010, to an average of 6.4 percent through June 30, 2013.

Demographic Information for the FNB AA						
	#	% Low	% Moderate	% Middle	% Upper	% Unknown
Geographies (Census Tracts)	49	2	14	53	31	0
Population by Geography	203,768	1	17	48	34	0
Owner-Occupied Housing by Geography	53,612	1	14	46	39	0
Businesses by Geography	15,032	3	11	49	37	0
Farms by Geography	741	1	8	57	34	0
Family Distribution by Income Level	51,966	19	18	20	43	N/A
Household Distribution by Income Level	75,459	23	17	19	41	N/A
Census Median Family Income (MFI)		\$46,354	Median Housing Value		\$112,926	
HUD- Adjusted MFI: 2011		\$47,100	Families Below the Poverty Level		13.18%	
HUD- Adjusted MFI: 2012		\$47,700	Unemployment Rate		5.00%	
HUD- Adjusted MFI: 2013		\$47,000				

Source: 2010 U.S. Census Data

Competition for financial services is strong. The annual FDIC Market Share Report for June 30, 2012, shows 19 financial institutions with a total of 73 branches (not including credit unions and non-financial institutions) competed for almost \$2.7 billion of insured deposits located in the market. The nature of the competition includes two mega-banks, five regional banks, and three large state banks. FNB is ranked fourth with a 9.92 percent share of the marketplace and does not operate outside the area. Almost 70 percent of the financial institutions have access to other loans and deposits outside the local market.

There are no true comparable banks to FNB in its AA. The competitors used to evaluate the bank's LTD ratio are all community banks that each operate in only one county inside the AA, while FNB operates in three of the counties. Additionally, all are nearly one-half to two-thirds smaller in asset size than FNB.

To gather current information on the nature of the economic conditions and potential CD opportunities in the AA, we contacted a local community leader during this examination.

The contact was with an agency that provides technical assistance to small businesses in Otero and Lincoln Counties. The contact stated that economic conditions have stabilized and local financial institutions are supportive in meeting the small business credit needs of the area. In addition, local financial institutions also support the contact’s agency, by providing financial expertise at various workshops. The contact also said the local financial institutions are meeting community development needs in Otero County.

Maps and additional information about the bank’s AA may be found in the Public File, maintained at the main office of the bank.

## Conclusions with Respect to Performance Tests

The bank’s overall CRA performance is *Satisfactory*. This is supported by separate conclusions for the lending test and the community development test.

### LENDING TEST

The bank’s performance under the lending test is rated satisfactory.

#### Loan-to-Deposit Ratio

FNB’s LTD ratio is reasonable given the bank’s size, financial condition, and credit needs of the AA. As of March 31, 2013, the bank’s quarterly average LTD ratio for the last 13 quarters was compared with other financial institutions operating within the AA. Over this period, the bank’s quarterly low LTD ratio was 33% and the bank’s quarterly high LTD ratio was 42%.

Bank	Average Quarterly Loan-to-Deposit Ratio
<b>First National Bank</b>	<b>38%</b>
Average of 4 other banks in the AA	61%
Highest bank in range	74%
Lowest bank in range	49%

*Source: Uniform Bank Performance Report.*

There are no similarly situated banks to FNB in its AA. The competitors used in the comparison above are all community banks with similar business models that each only operate in one county inside the AA, while FNB operates in three of the counties. Additionally, all are nearly one-half to two-thirds smaller in asset size than FNB.

While the bank’s LTD ratio is lower than the average of competitors, there are a few mitigating factors. The bank originates and sells residential real estate loans into the secondary market. From January 1, 2011, through April 30, 2013, the bank sold loans totaling \$31 million, representing 183 loans, on the secondary market. The LTD ratio is not fully reflective of the lending activity of FNB. Additionally, many borrowers request small dollar consumer loans that do not result in a significant increase in the LTD ratio.

FNB routinely makes these small dollar consumer loans to meet the credit needs of the community.

### Lending in Assessment Area

We calculated the percentage of both the number and dollar amount of loans in our sample of 20 commercial loans and 20 consumer loans made inside the bank's AA. With a combined 100 percent of the number and 100 percent of the dollar amount of loans, FNB's inside/outside ratio reflects a substantial majority of its primary loan products originated within the AA.

Lending in FNB's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	20	100	0	0	20	10,140	100	0	0	10,140
Consumer	20	100	0	0	20	146	100	0	0	146
<b>Total</b>	<b>40</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>10,286</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>10,286</b>

*Source: Loan originations for the evaluation period.*

Because all of the loans in the sample were originated inside the bank's AA, we did not have to replace any loans in order to arrive at a new sample for both primary loan products. With the original sample, we analyzed the following tests for Borrower and Geographic Distribution.

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

The borrower distribution of commercial and consumer loans originated in the AA reflects reasonable penetration among individuals of different income levels and businesses of different sizes. We relied more heavily on the borrower distribution of business loans, as these represent the focus of the bank's business strategy.

#### *Commercial Loans*

Overall, FNB meets the standard for loans to borrowers with gross annual revenue (GAR) of \$1 million or less. The following table shows the commercial loans in our sample from January 1, 2011, through December 31, 2011, compared to the 2000 census data. The number of commercial loans originated to businesses with revenues of \$1 million or less exceeds the demographic data. However, our sample included one large loan of \$4.4 million for a start-up business with no GAR, which skews the dollar percentage of loans originated.

<b>Borrower Distribution of Loans to Businesses in FNB's AA - 2011</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	% Total
% of AA Business	66	3	31	100
% of Bank Loans in AA by #	<b>80</b>	0	20	100
% of Bank Loans in AA by \$	<b>11</b>	0	89	100

Source: Loan sample and 2000 U.S. Census data.

The 2012 table below is updated to reflect the 2010 Census data and is compared to loans originated from January 1, 2012, through April 30, 2013. Although the 2012 table shows the bank's performance lower than the AA business demographics, our sample included two business purpose loans to individuals who, by definition, do not have GAR. In addition, there was one business purpose loan where GAR was not used in the credit decision/underwriting process. In the table, these three loans are shown as "unavailable/unknown." However, these three loans range in size from approximately \$66 thousand to \$162 thousand. Using loan size as a proxy for business size, these could be considered small business loans. Given the credit needs of the area, the bank has reasonable penetration of its AA.

<b>Borrower Distribution of Loans to Businesses in FNB's AA - 2012</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	% Total
% of AA Business	70	3	27	100
% of Bank Loans in AA by #	<b>40</b>	40	20	100
% of Bank Loans in AA by \$	<b>24</b>	70	6	100

Source: Loan Sample; 2010 U.S. Census data

### Consumer Loans

The overall distribution of consumer loans among individuals of different incomes given the demographics of the AA exceeds the standard. Consumer loans are held to a higher performance standard than commercial or residential real estate loans because they are generally easier to obtain, and easier for the bank to make compared to other loan types. The 2011 table shows the consumer loans in our sample from January 1, 2011, through December 31, 2011, compared to the 2000 Census data. Although the bank's penetration of low-income households is slightly less than the ratio, the penetration of moderate-income households is significantly higher than the ratio, and significantly exceeds the demographic data.

Borrower Distribution of Consumer Loans in FNB's AA - 2011								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	21	<b>17</b>	16	<b>49</b>	19	<b>17</b>	44	<b>17</b>

Source: Loan sample and 2000 U.S. Census data.

The 2012 table below is updated to reflect the 2010 Census data and is compared to loans originated from January 1, 2012, through April 30, 2013. The distribution of consumer loans to low-income borrowers significantly exceeds the household ratio. The distribution of consumer loans to moderate-income borrowers also significantly exceeds the ratio. This reflects excellent penetration among borrowers of different income levels.

Borrower Distribution of Consumer Loans in FNB's AA - 2012								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	23	<b>42</b>	17	<b>29</b>	19	<b>29</b>	41	<b>0</b>

Source: Loan sample and 2010 U.S. Census data.

### Geographic Distribution of Loans

The geographic distribution of FNB's commercial and consumer loans within the AA reflects reasonable dispersion.

#### Commercial Loans

When combined, the geographic distribution of commercial loans to businesses in the AA is reasonable. The following table compares the bank's commercial loans originated in 2011 to the 2000 Census data. There are no low-income CTs. The bank significantly exceeded the moderate-income ratio, reflecting excellent dispersion. In addition, the sample of loans originated in the middle-income CTs were all made to businesses located in Otero County, all of which are designated as distressed middle-income non-metropolitan CTs.

Geographic Distribution of Loans to Businesses in FNB's AA - 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Business Loans	N/A	<b>0</b>	9	<b>20</b>	67	<b>80</b>	24	<b>0</b>

Source: Loan sample and 2000 U.S. Census data.

The 2012 table below is updated to reflect the 2010 Census data and is compared to loans originated from January 1, 2012, through April 30, 2013. FNB did not originate any commercial loans in the low- or moderate-income CTs of the AA. This does not meet the standard, reflecting poor dispersion. However, as discussed in the *Description of Assessment Area* section of this PE, there are seven moderate-income CTs in the AA. Lending opportunities are limited as the majority of these areas are sparsely populated with both people and commerce. In addition, the sample of loans originated in the middle-income CTs includes 40 percent made to businesses located in Otero County, all of which are designated as distressed middle-income non-metropolitan CTs.

Geographic Distribution of Loans to Businesses in FNB's AA - 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Business Loans	3	0	11	0	49	33	37	67

Source: Loan sample and 2010 U.S. Census data.

### Consumer Loans

Overall, the geographic distribution of consumer loans is reasonable. The 2011 table compares the bank's consumer loans originated in 2011 to the 2000 Census data. There are no low-income CTs. The bank did not originate any consumer loans in the moderate-income CT, reflecting poor dispersion. In addition, the sample of loans originated in the middle-income CTs included 67 percent made to consumers located in Otero County, all of which are designated as distressed middle-income non-metropolitan CTs.

Geographic Distribution of Consumer Loans in FNB's AA - 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	N/A	0	9	0	67	50	24	50

Source: Loan sample and 2000 U.S. Census data.

The 2012 table below is updated to reflect the 2010 Census data and is compared to loans originated from January 1, 2012, through April 30, 2013. FNB has not originated any consumer loans in the low-income CT of the AA and does not meet the standard, reflecting poor dispersion. However, only one percent of the AA households resides in the low-income CT, limiting lending opportunities in this area. The distribution of loans to the moderate-income CTs reflects reasonable dispersion. In addition, the sample of loans originated in the middle-income CTs includes 78 percent made to consumers located in Otero County, all of which are designated as distressed middle-income non-metropolitan CTs.

Geographic Distribution of Consumer Loans in FNB's AA - 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	1	0	15	7	49	64	35	29

Source: Loan sample and 2010 U.S. Census data.

## Responses to Complaints

We reviewed the bank's public file for complaints, and complaints reported to the OCC through the Customer Assistance Group. There were no complaints received by the bank or the OCC relating to the bank's CRA performance during the evaluation period.

## COMMUNITY DEVELOPMENT TEST

Overall, FNB demonstrates adequate responsiveness to CD needs in the AA considering opportunities and the bank's capacity and business strategy. A number of the CD loans, qualified investments, and services discussed in the following sections benefit low- or moderate income individuals and promote affordable housing. While the bank is active in the community, many of the CD activities presented did not meet the specific criteria of CRA and were not qualified. This is the first ISB examination at FNB and the Board and management plan to receive training on qualified CD activity requirements to ensure a thorough understanding going forward. The bank has not conducted a formal assessment of the CD needs in its AA to determine what opportunities for CD lending, qualified investments, and services are available. Due to the small number of low-income and moderate-income CTs in the AA, the opportunity to make CD loans to new businesses is limited.

## Number and Amount of Community Development Loans

CD lending demonstrates adequate responsiveness to needs in the AA. Since the last CRA examination, FNB funded \$9.9 million in CD loans that meet both the size and purpose tests. This total includes two large loans that created low- or moderate-income jobs in Otero County, a loan for affordable housing in Chaves County, three loans to non-profit organizations, and 40 loans to low- or moderate-income borrowers for affordable housing. The three non-profit organizations are located in Otero County and benefit low- or moderate-income individuals in the community. The affordable housing loans were permanent financing for primary residences to low- or moderate-income individuals in the bank's AA. Not all loans presented for consideration were qualified as CD loans and more documentation is necessary to determine if they meet CD requirements.

**Number and Amount of Qualified Investments**

The nature and level of qualified investments demonstrates poor responsiveness to needs in the AA. Since the last examination, FNB made \$42 thousand in qualified investments to six organizations. Each of the qualified investments was in the form of a donation to a non-profit organization that provides community services to low- or moderate-income individuals. One organization receiving funds, for example, provides backpacks of food to needy children. In addition, FNB owns municipal securities that could potentially meet the CD requirements for economic development. However, further documentation is required to determine if they would meet requirements to qualify. FNB also donates funds to many worthy community organizations that do not meet the requirements to qualify as CD activities.

**Extent to Which the Bank Provides Community Development Services**

The bank demonstrates adequate responsiveness to the CD service needs in the AA. Employees of FNB provided a combined 1,120 hours of service to five organizations since the last examination. Each employee involved in providing CD services used their financial expertise to benefit the AA. A continued commitment is apparent in a majority of the activities. Many employees at FNB are extremely active in the community, but further documentation is needed in order to qualify as CD activities.

FNB also offers a variety of alternative delivery systems for retail services that make banking more accessible to low- or moderate-income individuals. The main branch is located in a low-income CT and offers extended hours, including Saturdays, with a full range of services. Six branches are located in middle-income CTs, with three being designated as distressed middle-income non-metropolitan CTs. There are also 11 bank-owned no-cost ATMs. A savings product is available that requires only a \$100 minimum balance and no service fees. Other retail services available to low- or moderate-income individuals include reasonably priced checking products, internet and mobile banking, and free telephone banking.

**Responsiveness to Community Development Needs**

In summary, the bank demonstrates adequate responsiveness to CD needs in the AA. The bank could be more responsive to the needs of its AA if it completed a “needs assessment” of the service area, developed a plan to address identified needs, and implemented the plan. The bank could also partner with CD organizations that provide products and services that fit within the bank’s business strategy, such as non-profit business loan organizations and technical assistance providers, or organizations that provide affordable housing and related services in the AA.

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

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

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